FINANCIAL TIMES

A challenge to the enigma
Page 12

No.31,042 © FINANCIAL TIMES 1990 — Monday January 8 1990 — D 8523A

World News

US ready to discuss more troop cuts in Europe

Brent Scowcroft, President George Bush's National Security Adviser, said the US was prepared to discuss further reductions in its troops in Europe, beyond those already proposed, as pressure for cuts grew in Washington and Bonn.

The Bush Administration also gave a cautiously favourable response to the latest East German plan for big cuts in US and Soviet troops in Europe. Page 2

HK diplomacy

Britain yesterday confirmed that senior officials had visited China last month in preparation for an intense bout of diplomacy over Hong Kong's future. Page 14

US acts on Colombia

A US aircraft carrier and cruiser are on their way to South America to begin monitoring air and sea drug traffic out of Colombia, Pentagon officials said. Colombia ruled out joining military manoeuvres with the US.

Polish army protest

About 250 members of Poland's armed forces demonstrated in the Baltic port of Gdansk against Communist control and the stationing of Soviet troops in the country.

Iranians go to USSR

Iran sent a foreign ministry team to the Soviet Union amid rioting on their common border by Soviet Moslems seeking easier access to the Islamic Republic. Page 4

Vatican explains

The Vatican gave refuge to deposed dictator Manuel Antonio Noriega in its Panama mission because he threatened to order massacres, a Papal envoy said.

French condemned

Radical Afghan rebel leader Gulbuddin Hekmatyar condemned France for deciding to send diplomats back into Kabul. Page 4

Sri Lanka pact

India and Sri Lanka decided to sign a friendship treaty, ending strains in their relationship which followed attempts by Indian troops to subdue Tamil militants. Page 4

Moscow energy aid

The Soviet Union is to supply Romania with extra energy throughout January and it has suspended food imports from there. Page 2

400 escape disaster

All 400 passengers and crew escaped unharmed when a Pakistani jumbo jet with burst tyres made an emergency landing at Frankfurt airport.

New Forum threat

East Germany's biggest opposition group, New Forum, threatened a general strike if the ruling Communist Party refused to loosen its grip.

End of Polish CP

Poland's Communist Party leaders, seeking political survival, agreed to disband and form a new democratic group free of Marxism.

Protests in Qom

Demonstrations have been taking place in the Iranian holy city of Qom against any return to political life by Ayatollah Hossein Ali Montazeri.

Return of the soldier

A soldier who went into hiding from Stalin's secret police 42 years ago has just emerged from Byelorussian woods, convinced by the Kremlin's reforms that it is finally safe.

Jordanian shot

Israeli troops shot dead an armed Jordanian soldier after several days of sniper fire at the border, the army said.

Liberian denial

Liberians who witnessed a violent attempt to overthrow President Samuel Doe denied the army had killed large numbers of civilians while putting down the unrest.

Marchais under fire

French Communist Party leader Georges Marchais is facing open rebellion against his 17-year rule after charges that he had close ties with executed Romanian dictator Nicolae Ceausescu.

Ultra virus

A student accused of planting a rogue "worm" programme in a data network, freezing some 6,000 computers across the US, is to go on trial in Syracuse, New York, in a case seen as a major test of computer security laws.

Business Summary

Bond plans to retire, says mystery US bidder

ALAN BOND, Australian businessman, plans to retire from his financially beleaguered corporate empire and sell his personal holdings, according to the chairman of a "very private" Los Angeles investment group which emerged last week as a mystery bidder for control of the Bond companies. Page 14

EUROPEAN Monetary System: The Italian lira's central rate against the European currency unit was devalued by 3.01 per cent on Friday and its permitted band of fluctuation was narrowed to 2.25 per cent from 6 per cent. This brings it into line with most other member currencies and is a step towards fuller monetary union. In terms of the D-Mark the value of the lira has been cut by 3.68 per cent, following the Italian currency's fall to a record low against the D-Mark, despite intervention by the Bank of Italy.

The Danish krone traded outside its cross-rate limit against the West German currency last week, as the renewed strength of the D-Mark against the dollar – following sales of the US unit by central banks, including the Bundesbank – put renewed pressure on the system. This increased speculation that other weaker currencies in the EMS will be forced to devalue against the strong D-Mark and Dutch guilder in the next few months. Currencies, Page 26; Story, Analysis, Page 2

BRITISH Satellite Broadcasting: the main shareholders in the venture reached agreement in principle to put a further sum approaching £1bn ($1.63bn) behind the satellite television venture. Page 8

APPLE Computer denied charges it derived key elements of its Macintosh personal computer software from programs created at Xerox's neighbouring Silicon Valley Research Centre in the late 1970s. Page 17

IRAQI debt: Iraq would repay $3bn of its foreign debt this year, Trade Minister Mohammed Mahdi Saleh said. Page 4

AID for Mexico: Spain will agree to inject about $4bn into Mexico's debt-ridden economy when King Juan Carlos visits this week. Page 3

TANKER rates, which usually decline over the Christmas and New Year, have risen in most loading areas over the past three weeks following a big increase in demand for tonnage. Page 2

EUROPE'S chemical industry: W Europe's chemicals industry, after several years of strong growth, will see expansion falter during 1990, new projections predict. Page 2

WEST GERMAN banks and companies will be able to issue bonds in foreign currencies for direct sale to German investors under the latest capital markets liberalisation step decided by the Bundesbank. Page 17

JAPANESE securities houses: Britain made diplomatic representations to Japan in an attempt to ensure non-Japanese securities houses are consulted before decisions are made which affect trading in Japanese equity warrant issues. Page 17

WORLD Bank: the next $1.5bn bond issue to be launched by the World Bank is to be offered simultaneously to investors in Europe, the US and in Japan. Page 17

FORD launches a saloon version of its Scorpio-Granada model at the Brussels motor show today in a belated bid to improve its lacklustre performance in Western Europe's thriving executive car market. Page 17

NEWFOUNDLAND fish: dwindling fish resources off Canada's east coast forced Newfoundland's Fishery Products International to cut operations by about one fifth. Page 17

FRENCH merchant bank: a protocol for the establishment of a merchant bank in France with a capital of FFr50m ($8.77m) has been signed by three Turkish institutions and one French. Page 17

BANCO Bilbao Vizcaya: The warring directors of Spain's biggest bank were being pressed at the weekend by their surviving co-president, Jose Angel Sanchez Asiain, to end nearly a month of in-fighting over who should replace Pedro Toledo, the former co-president who died in December. Page 17

Campeau gives up attempts to sell Bloomingdale's


Robert Campeau: bad news

CAMPEAU, the heavily indebted Canadian retail company which has been skirting close to bankruptcy, has given up its attempts to sell Bloomingdale's, its flagship New York department store chain, writes Anatole Kaletsky in New York.

The decision was revealed over the weekend by financiers closely involved in the efforts to restructure Campeau.

The reason for abandoning the sale of Bloomingdale's was said to have been the inadequate level of offers received for the prestigious retail chain, which has been on the block for more than three months.

Campeau originally predicted a selling price of at least $1.5bn for Bloomingdale's, which was by far the most valuable asset in the Federated Department Stores and Allied Stores groups which it bought in a $10bn binge of highly-leveraged takeovers two years ago.

But offers for Bloomingdale's apparently fell far short of these expectations, partly because of the weakness in the US retailing business and the glut of other department stores on the market.

In addition to Campeau, Hooker, the bankrupt Australian retailing group, is trying to unload its recently-acquired US department store portfolio. BAT Industries, the London-based conglomerate, is also trying to sell the Marshall Fields and Saks Fifth Avenue department store chains, although its disposals reflect strategic decisions, not immediate cash needs.

The Campeau restructuring committee, now dominated by the wealthy Reichmann family of Toronto, have apparently decided to persuade creditors that selling Bloomingdale's at today's distressed prices would only weaken Campeau's balance sheet and reduce the group's cash generating power.

For more than three months, the Reichmanns have been locked in a war of nerves with Campeau's bankers and junk bond holders, who had been hoping for partial repayment out of the proceeds of proposed asset sales.

But now, unless a better offer for Bloomingdale's materialises, the chances of cash repayments to unsecured creditors appear to be small and junk bond holders are likely to be offered equity in a restructured Campeau instead.

But even a settlement with bondholders would leave open the question of whether Campeau can generate enough cash to continue servicing its bank debts.

Citibank, Campeau's lead banker has given the restructuring committee until January 15 to come up with a refinancing scheme and many analysts on Wall Street continue to expect a Chapter 11 bankruptcy filing around that time.

The failure to sell Bloomingdale's is further bad news for Mr Robert Campeau, founder of the company that bears his name.

EC expected to approve floor price for Japanese chips

By Lucy Kellaway in Brussels

EUROPEAN Community member states will be asked later this month to approve a floor price for some Japanese semiconductor imports. Their agreement would put an end to a three-year inquiry into the dumping of Japanese chips on the European market.

The likely move follows agreement last summer between the European Commission and 11 Japanese producers of dynamic random access memory chips (D-rams) on a minimum export price. If approved by the 12 member states, the decision will be a blow to European chip users, who fear that any price increase would add to their costs and make them less competitive.

Some EC member states have objected to the measure on the grounds that it is against the interests of consumers and this has delayed final approval of the scheme.

The Commission's final proposals for a floor price contain two concessions to the users of D-rams, although they do not go far enough to remove consumers' objections.

New types of chips can be sold beneath the minimum price for an unspecified period, while chips used for making sample products will also be excluded.

The argreement is expected to come into force in the next few months and will expire in 1991, at the same time as a similar arrangement between Japanese producers and the US.

Under the terms of the deal, the 11 Japanese producers – which together account for almost all Dram exports to the EC – have agreed on a minimum price equivalent to average production cost plus 9.5 per cent.

The Commission had originally wanted a much higher floor price, including a profit margin of about 20 per cent, but was persuaded to accept a less stringent level.

Although the Commission has yet to publish the first reference price, it has said that it is well below the existing market price. This means that initially the new arrangement will have little impact on the market and it is only expected to bite when further evidence of dumping occurs.

The Commission hopes the minimum price arrangements will be a flexible way of protecting European D-ram producers, without reducing the competitiveness of the European electronics industry.

The action follows the finding of extensive dumping of D-rams during 1986 and 1987. According to Commission estimates, the export prices of D-rams were several times lower than the domestic Japanese price and Japan increased its share of the European market from 24.6 per cent in 1983 to 70.5 per cent in 1987.

Evidence was found of serious damage to European producers who at the time either had unused capacity, or postponed opening new capacity as a result of the artifically low D-ram price.

The Commission argues that the introduction of a minimum import price is not against the interests of either semiconductor users or consumers, as a healthy European D-ram industry is important both strategically and because the advanced technology used in D-rams drives that in other parts of the electronics industry.

Realignment of Italian lira in EMS welcomed

By John Wyles in Rome and Michael Prowse in London

THE EUROPEAN Commission and the Italian authorities have hailed Friday night's realignment of the lira's position in the European Monetary System as a step towards European economic and monetary union.

Italian officials have promised a clamp-down on public spending as a necessary support to the adjustment.

The realignment – the 12th in the system's history – involved a 3.7 per cent devaluation of the lira and a decision to place it in the narrow 2.25 per cent fluctuation band of the European Monetary System, instead of the 6 per cent band it occupied since 1979.

Mr Jacques Delors, President of the European Commission, said it was a further indication that member countries were preparing themselves for the first stage of European Monetary Union, requiring greater convergence of economic policy and performance.

The movement of the lira from the 6 per cent fluctuation band was one of the smoothest realignments since the system began operating in March 1979.

However, it could create additional downward pressure on other narrow band currencies such as the Danish krone and the French and Belgian francs, if the lira moves towards the top of its range.

Stability in the EMS will depend on whether foreign exchange markets remain confident that the D-Mark will continue to go from strength to strength following the opening of the Berlin Wall.

Spain is now the only EMS member with a 6 per cent fluctuation band. The Italian move will put the British Government under more pressure to clarify its stance on EMS membership.


John Major, the British Chancellor of the Exchequer, is under increasing pressure to consider changes in monetary policy ahead of his first statement on the forthcoming national budget. He will be conferring with Treasury ministers and senior government officials at the weekend. Page 14

Mr Cirino Pomicino, who has emerged as the Italian coalition's chief spokesman on economic policy, said the aim was to block the growth of public spending ahead of the spring local elections.

The change in the lira's central rates, which effectively devalues it by 3.7 per cent, is seen in Rome as merely accommodating the currency's slight downward move in recent weeks, particularly against the D-Mark. The lira's new central rate against the D-Mark will be about 748 lire, compared with 720.669 before the realignment.

New official trading ranges Continued on Page 14

Public spending curbs; D-Mark crucial, Page 2

Toulouse set to retain Airbus assembly

By Paul Betts and David White in London

THE FOUR partners in the European Airbus consortium appear ready to agree later this month to keep all final assembly of Airbus aircraft at Toulouse, France, thus ending a year-long controversy over West German demands to transfer part of the work to Hamburg.

The Airbus supervisory board is expected to resolve the dispute at a meeting on January 26 when it will consider the recommendations of a report commissioned by the consortium on the issue.

The four Airbus partners – Aerospatiale of France (37.9 per cent), Messerschmitt-Bölkow-Blohm (37.9 per cent) of West Germany, British Aerospace (20 per cent) and Casa of Spain (4.2 per cent) – are understood to have already unanimously approved the broad recommendations of the report.

MBB, backed by the West German Government, sparked the dispute last year by calling for the transfer of the final assembly of the consortium's best-selling A-320 narrow-bodied short-to-medium-range airliner to Hamburg. But the French fiercely opposed the initiative, while both the British and the Spanish partners expressed strong reservations over the economic risks of transferring A-320 assembly mid-way through the programme.

After three separate reports failed to resolve the dispute, Airbus commissioned a fourth study headed by Mr Robert McKinley, the managing director of BAe's Airbus division, and including representatives from each of the Airbus partners.

The latest report is understood to suggest that MBB's original proposals to transfer the A-320 assembly to Hamburg was not economically attractive and that the status quo should be maintained with all Airbus final assembly concentrated at Toulouse.

The report is also understood to have looked into a series of other proposals to improve Airbus manufacturing efficiency including the complete assembly and fitting out of the new Airbus A-330 and A-340 wide-body jets in Toulouse. This would help reduce the manufacturing cycle of the new wide-bodied jetliners.

Under the current production system for the narrow-bodied A-320, aircraft are assembled at Toulouse, flown to Hamburg for fitting out, and then flown back to Toulouse for delivery to customers.

Although the consortium appears to be on the verge of resolving the dispute over Airbus assembly, it is still looking for a new finance director to

Continued on Page 14

Monday Interview, Page 30

Moscow plans law to stimulate joint ventures with foreigners

By John Wyles, recently in Leningrad

MOSCOW is drawing up a comprehensive law designed to stimulate joint ventures between Soviet and foreign companies and to streamline the regulation of the 1,200 which have already been registered.

In an announcement which took many Western experts on joint ventures by surprise, Mr Yuri Proskuriakov, a senior official at the Ministry of Finance, told a conference in Leningrad last week that the law should be ready "at the end of January or in early February."

"We have had lots of problems with joint ventures so far and we believe that these will be effectively dealt with by the new law which should be adopted next autumn," said Mr Proskuriakov.

Many of these problems were given a full airing by both Western and Soviet managers and experts during the 2½-day conference on "Perestroika and the Soviet Economy" which was organised by the Leningrad International Management Institute.

The Institute is a joint venture between Leningrad University and the Bocconi University of Milan.

According to one estimate by a US lawyer based in Moscow, there are no fewer than 21 separate pieces of Soviet legislation which bear on the formation and activities of joint ventures.

Many Western experts claim that existing laws lack clarity and fail to face up to the great difficulties posed by the non-covertibility of the rouble and the consequent obstacles to foreign exchange operations.

While Soviet officials at the conference ruled out a convertible rouble in the forseeable future, Mr Proskuriakov said that Moscow was now looking for "new ways to find foreign exchange for joint ventures." Among other things, the Government may allow joint ventures access to foreign exchange through Soviet banks, he said.

Stressing Moscow's desire to stimulate joint ventures, Mr Proskuriakov listed several objectives for the legislation, including streamlining tax regulations. Ministry experts were also reviewing constraints on the repatriation of profits and a restriction which limits reserve funds to 25 per cent of a joint venture's equity.

The legislation was being discussed by officials from the Ministries of Finance and Foreign Affairs and also from the banks. Mr Proskuriakov said that the Government would welcome comments from joint venture operators.

According to Soviet statistics cited by the Finance Ministry official, a total of 1,238 joint ventures have now been registered of which more than 85 per cent are enterprises with "capitalist" companies.

These would be contributing 1.8bn roubles ($2.1bn) in equity for the ventures, a clear majority of which were involved in service businesses.

Sovlets aid Bucharest, Page 2

CONTENTS

THE MONDAY INTERVIEW

Richard Evans, new chief executive of British Aerospace, gives the impression of a man in a hurry. He takes centre stage at a time when the group is engulfed in controversy about its Rover acquisition. Page 30

Romanian radicals press case for electoral law

By Judy Dempsey in Bucharest

A NEW electoral law which will ensure free and democratic elections will be presented later this week by the National Salvation Front despite misgivings among the Front's Communist members.

More than 3,000 students held a rally yesterday, warning of new mass protests if Romania's new leaders failed to meet their demands, and insisted no Communist Party member should belong to a new government after free elections in April.

The rally reinforced views of the more radical members of the Front of the urgent need for the electoral law along with proposed travel legislation.

Mr Dumitri Mazilu, the vice president of the Front, who was under house arrest since May 1986 until December 22 following his attempts at presenting a damning report on human rights in Romania to the United Nations, explains: "The most important question now for the nation, is that people should know the main political trends of the Front. People must stand up and declare themselves politically."

"If they support the Communist Party, they must say so but then they cannot hold office in, for instance, the judiciary and if they do not support the party they must say this openly as well," said Mr Mazilu, who with a handful of other Front members, is anxious to speed up the process of political reform.

Two factors hinder this process. One is the political inexperience of the society. The other is the attempt by the Communists to retain the bureaucratic structures of this vast apparatus which before the Revolution had a party membership of over 3.5m out of a population of 22m.

Moreover since 1947, when the Communists took power, society has been locked in a mentality denied of any choice. There is little doubt that this long legacy of powerlessness, experienced nowhere to the same degree in other parts of Eastern Europe, is being subtly manipulated by some of the Communist within the Front.

For example, last Saturday night, two Communists were given time to present their political views on television. When the newly formed prewar Peasants Party and the Democratic Christian Movement, the youth wing of the Peasants party, requested air time, they were refused. The official reason was that they had not been registered yet as a political party, but then neither had the Communist Party.

Just as crucial, says Mr Mazilu is the right of every citizen to travel - a right which had been denied to millions of people before the revolution.

Young people say that the Front's credibility now rests on this issue.It will be difficult for people like Mr Mazilu and his old dissident friends on the Front to push this measure through because of the old thinking which still prevails. "It is unbelievable. Some people come into my office and ask can they can be a deputy minster. They have no credentials. They remained silent in the Ceausescu era and even connived, and all of a sudden they are now changing sides and saying that they have suffered, too.

Mr Mazilu said that when he was chosen to be vice president of the Front, he was offered a bigger home and more money. "They don't understand. I do not want privileges, I want our natural rights."

The reality is that the Front has inherited a totalitarian system of which the Ceasescus were a product and which they exploited. "If we continue to keep this totalitarian system then this system will facilitate the rise in the future of new dictators. That is why we must take radical measures immediately," said Mr Mazilu.

If he has anyone on his side, it is the youth who made the Revolution. It is their voice which will become louder over the coming weeks as the election campaign opens.

Soviet energy aid for Bucharest

By Judy Dempsey

THE Soviet Union will supply Romania with extra energy throughout January and has suspended all food imports from the country, Mr Eduard Shevardnadze, the Soviet Foreign Minister, said at the weekend.

Speaking at a news conference in Bucharest following eight hours of talks with the National Salvation Front on Saturday, Mr Shevardnadze described the Romanian revolution as a unique phenomenon, "not only for Romania but for world history".

He said that any time he returned to his country after meeting Mr Nicholae Ceausescu, who was toppled from power on December 22, "it was with unpleasant feelings".

Looking ahead, Mr Shevardnadze said the Soviet Union would give the Romanian people "political, material and moral support."

Moscow has already shipped medical supplies worth Roubles 1.5m (£1.5m) to Romania. In addition it will supply Romania with 350,000 tonnes of oil during January.

In return, Mr Shevardnadze said that as things stabilised he expected Romania to supply the Soviet Union with consumer products and looked forward to strengthening economic ties, which would include the setting up of joint ventures.

Apart from economic issues, he also discussed with the Front Romania's relations with the Soviet republic of Moldavia, which has a large ethnic Romanian population. Moldavia was ceded to the Soviet Union during the Second World War and since then has been a latent contentious issue.

Nationalist riots have dominated Moldavia over the past few months. However, in a note of optimism, Mr Shevardnadze said contacts between Moldavia and Romania would increase, a reference to hinting at allowing greater travel and possibly family reunification.

Polish communists agree to scrap party

By Christopher Bobinski in Warsaw

POLAND'S communists have agreed in principle to dissolve the party and create a non-Marxist social democratic party at the congress later this month.

A policy document accepted on Saturday by a central committee meeting states that the new party to be founded at the congress on the January 27 will drop the principles of democratic centralism and the dictatorship of the proletariat and accept free elections as a way of deciding the composition of future governments.

At present the Communist Party retains several key posts in the Government such as defence and the interior ministry and makes up 38 per cent of parliament.

The greater part of the administration and management is still in the hands of party members, as is the presidency.

Popular support, however, is low with no more than 10 per cent declaring they would vote for the party in an election while Mr Mieczyslaw Rakowski, the party leader, is invariably bottom in any popularity opinion poll.

The document says that the new group will seek to expand links with the Socialist International while maintaining Poland's alliance to the Soviet Union which, it says, guarantees Poland's frontiers.

On economic policy the document veers to the left of centre, arguing against wholesale privatisation of industry but accepting that each form of ownership should co-exist.

It warns against sales of state enterprises to western investors at "speculative prices."

Politburo member Leszek Miller told the Central Committee that party members will be polled before the congress on choices for a new name.

The 230-member Central Committee was presented with a proposal for the poll. It included six possible names and space for a write-in nomination for the new party name which is to replace the Polish United Workers Party, or PUWP, as the party is now called.

The sweeping victory of the Solidarity-led opposition in partially free elections last June sent the Communist party scrambling for a new identity.

US signals flexibility on troop cuts in Europe

By Peter Riddell, US Editor, in Washington and David Marsh in Bonn

MR Brent Scowcroft, President George Bush's National Security Adviser, said yesterday that the US was prepared to discuss further reductions in its troops in Europe, beyond cuts already proposed, as pressure for cuts increased in both Washington and Bonn.

The Bush Administration also gave a cautiously favourable response to the latest East German plan for big cuts in US and Soviet troops in Europe.

Without commenting on the specific suggestions, Mr Scowcroft noted the existing Nato plan for cutting US and Soviet troops in Europe to a ceiling of 275,000 each, adding that "lower numbers in consultation with the allies could certainly be contemplated".

The US, he said, was interested in getting Soviet troops out of Europe.

This comment reflects not only the big changes in Eastern Europe since the Nato position was agreed last May but also growing pressure in Congress for faster reductions, including calls from influential leaders such as Senator Sam Nunn, the chairman of the Armed Services Committee.

Responding to Senator Nunn, Mr Dick Cheney, the US Defence Secretary, said over the weekend that any troop reductions had to be done in conjunction with the allies and in response to cuts on the Soviet side.

Pressures are also growing for drastic cuts in West Germany's armed forces in view of the ebbing of communism in East Germany and the growing prospect of reunification.

Mr Gregor Gysi, the new chairman of the Socialist Unity (Communist) Party in East Germany, laid down a fresh challenge for Bonn's defence strategy at the weekend when he suggested that both German states cut by half their armed forces by 1991.

The West German Bundeswehr, the biggest conventional force in western Europe, is the linchpin of Nato. Although Bonn already unveiled plans last month to reduce the 490,000-man strength of the armed forces from 490,000 to around 400,000 by the mid-1990s, the cuts do not go nearly far enough for restive public opinion.

The campaign for deeper reductions is gaining ground from the view that German reunification would require at least a thorough overhaul of West Germany's role within Nato, and possibly its departure from the Alliance.

Plans announced last week by the East Berlin Government for a lower conscription period of only 12 months for the East German army have been greeted by calls in Bonn for matching cuts in West Germany.

East Germany's National People's Army has a strength of around 172,000, of whom 56 per cent are conscripts. The East German leadership accepts that some slimming is necessary, partly because many soldiers have been drafted into civilian activities to cope with manpower strains caused by last year's emigration exodus.

Both the West German opposition Social Democrats and the liberal Free Democrats, the junior partner in the Bonn coalition, have come out in favour of a 12-month conscription period in the Federal Republic, compared with the present 15 months. This would reduce the Bundeswehr to around 350,000 men or fewer.

Bulgarians protest over ethnic Turks

THOUSANDS of Bulgarians opposed to the restoration of Moslem rights shouted down communist Prime Minister Georgi Atanasov at a nationalist rally yesterday and demanded the Government's resignation, Reuter reports from Sofia.

"Never again a Bulgaria under Turkish yoke," the protesters chanted outside the capital's Alexander Nevsky Cathedral, built in 1877 in memory of 200,000 Russian soldiers who died helping the Bulgarians win independence from 500 years of Ottoman rule.

"Bulgaria for Bulgarians", "Victory, victory", they shouted as they waved red, green and white Bulgarian flags and screamed for the Government to resign before falling to their knees in silent tribute to the 19th century heroes of independence.

But Mr Atanasov told the crowd of about 6,000: "If we all as Bulgarians want to be free then all the people must be free."

"The decision [to grant religious rights to Moslems]. . . is not the end but the beginning of dialogue on the ethnic problem," he added.

The nationalist unrest, which has spread throughout the country in the past week, began after the new communist leadership decided on December 29 to reverse a decades-old assimilation campaign against Bulgaria's 1.5m ethnic Turks and restore their cultural and religious rights. Under the campaign ethnic Turks had to assume Bulgarian names.

Army protest in Gdansk

ABOUT 250 members of Poland's armed forces demonstrated yesterday in the Baltic port of Gdansk against Communist control and the stationing of Soviet troops in the country, Reuter reports from Warsaw.

The protest followed a mass attended by some 3,000 people, including Mr Lech Walesa, the Solidarity leader, at which the priest indirectly called for a withdrawal of the estimated 45,000 Soviet troops in Poland.

About 40 officers and more than 200 soldiers then marched through the city.

D-Mark crucial for EMS stability

Peter Norman looks at tensions behind Italy's decisions on the lira

BOTH the Italian authorities and the European Commission hailed Friday night's devaluation of the Italian lira and the decision to place it in the narrow 2.25 per cent fluctuation band of the European Monetary System as a step towards European economic and monetary union.

But such judgments presuppose that the tensions that were building up ahead of the system's 12th parity adjustment, and the first in nearly three years, can be contained.

Although the latest mini-realignment in the EMS was one of the smoothest since the system began operating in March 1979, it raises other important questions.

Will Italy be able to maintain its currency, which previously could fluctuate up to 6 per cent against other EMS members, in lockstep with the powerful West German D-Mark? And has Italy's action any implications for Britain, which although a founder member of the EMS has yet to find the right time to allow sterling to participate in its exchange rate mechanism?

For the foreseeable future, stability in the EMS depends on what the foreign exchange markets think of the D-Mark. It was the breaching of the Berlin Wall in November last year and the associated perception that West Germany stands to gain most from the liberalisation of eastern Europe that lay behind Friday's move.

The D-Mark has attracted foreign investors who believe that the unification of East and West Germany will create a new economic superpower.

On a shorter term view, analysts have argued that the D-Mark could strengthen further if West Germany now grows faster than its EMS partners as a result of the boost to its economy from large scale immigration from the east. In these circumstances, the Bundesbank might have to raise D-Mark interest rates to dampen inflation and so make the West German currency still more attractive to foreign investors.

Since November 10, the D-Mark has gained nearly 11 per cent against the dollar and yen and around 7.5 per cent against sterling, putting strains on its relationship with those currencies that are tied to it through the EMS exchange rate mechanism.

Friday's decisions will result in a roughly 3.7 per cent downward movement of the lira central rate against the D-Mark. Among the currencies linked to the D-Mark in the narrow 2.25 per cent band, only the Dutch guilder was holding its own against the German currency.

The decisions could put narrow band currencies such as the Danish krone and French and Belgian francs under renewed downwards pressure if, as is often the case after a realignment, the lira now moves towards the top of its range of fluctuation.

However, this will depend crucially on whether the market still believes that the D-Mark will go from strength to strength. Before last week's realignment speculation, there were signs of doubt.

While the liberalisation of eastern Europe is positive for the D-Mark, disorder in the Soviet Union is not. The D-Mark tended weaker on the reports that ethnic troubles in the Soviet Union had forced President Gorbachev to cancel meetings with foreign leaders.

West Germany's annual pay bargaining round could also sap some of the D-Mark's strength. Wednesday marks the formal start of talks between the powerful I G Metall trade union and metal industry employers on a claim for a 9 per cent pay rise coupled with shorter working hours.

However, the cloud posed by the wage round on West Germany's economic horizon is as nothing compared with Italy's economic problems.

At the weekend, Mr Guido Carli, the Italian Treasury minister, acknowledged that the decision to put the lira in the narrow band of the EMS will require extra efforts to combat the problem of Italy's L1,000 trillion public debt. In a statement, he warned that the move could entail higher interest rates. "The reduced flexibility in the exchange rate can only be matched by greater elasticity in interest rates," he said.

The Italian monetary authorities argue that the weekend decisions are a sign that Italy is more determined than before to combat a relatively high 6.6 per cent inflation rate. However, it is unclear that the foreign exchange markets will give the lira a clean bill of health until Italy has successfully removed exchange controls. This move is due to take place by July.

The weekend moves have no immediate implications for Britain. Treasury officials said yesterday the conditions for British entry into the exchange rate mechanism were unaffected by the Italian decision.

Before sterling joins the exchange rate mechanism, the level of UK inflation will have to be significantly lower. There will have to be capital liberalisation in the Community and "real progress" towards the completion of the single market with freedom of financial services and a strengthened competition policy.

Italians plan public spending crackdown

By John Wyles in Rome

ITALY'S three ministers with chief economic responsibilities yesterday promised an administrative clampdown on public spending as a necessary support for Friday night's decision to make the lira a "normal" currency within the European Monetary System by limiting its margin of fluctuation to 2.25 per cent.

Although the currency may suffer some initial turbulence in the foreign exchange markets today, the Italian authorities are confident they have correctly timed a decision which ministers have foreshadowed several times over the past three months. The related change in the lira's central rates, which effectively devalues it by about 4 per cent, is seen in Rome as merely accommodating the currency's slight downward move in recent weeks, particularly against the D-Mark.

Since the lira's downward limit against the German currency remains L765, as it was under the 6 per cent margin of fluctuation, the Government sought at the weekend to present the change as more of a technical adjustment than a devaluation.

As so often in the past, the external requirement to honour European Community obligations will now be used by the Government to try to override political obstacles within its own ranks to potentially controversial measures. The process began yesterday with a three-hour meeting between Mr Guido Carli, the Treasury Minister, Mr Rino Formica, the Finance Minister, and Mr Paolo Cirino Pomicino, the Budget Minister.

In a statement issued afterwards they said they intended to define "a series of administrative acts aimed at contrasting tendencies in public spending which are not in line with the public borrowing requirement and thus with the twin aims of maintaining the deficit within forecast limits. . . and encouraging a swifter reduction in inflation."

Mr Cirino Pomicino, who has emerged as the coalition's chief spokesman on economic policy, succinctly defined the aim as "to block the growth of public spending which is typical of a pre-electoral period". With local elections coming up in late spring, the ministers want to clamp down on discretionary departmental spending, which is traditionally directed at securing favourable results for the five governing parties.

The measures, which are expected to include a four-month block on access to the budget's non-dedicated "global funds", would in any case be necessary to achieve 1990 budgetary objectives. The International Monetary Fund, supported by many Italian forecasters, recently made clear its doubts that the Government would achieve its deficit target of L133,000bn (10.2 per cent of Gross Domestic Product) without a more muscular attack on spending.

One result of the move to the narrower EMS band will be more volatile interest rates – a prospect Mr Carli confirmed on Saturday – which will only complicate the task of achieving the deficit, since a large part of the Government's outstanding debt is indexed to short-term rates.

SHIPPING REPORT

Unseasonal increase in tanker rates

TANKER rates, which usually fall over the Christmas and New Year, have been rising in most loading areas over the past three weeks following a big increase in demand for tonnage, writes Kevin Brown.

Demand has been particularly strong for smaller ships, especially in the Middle East Gulf, the largest loading area. A cargo of 80,000 tons to Australia was fixed at Worldscale 190 last week and a cargo of 67,000 tons for the shorter trip to Mombasa was fixed at Worldscale 200.

The general level of VLCC fixtures was around Worldscale 62 to Worldscale 65 for cargoes of 250,000 to 270,000 tons to the West, and around Worldscale 72.5 for similar cargoes to Japan.

However, brokers warned that the mini-boom in rates was unlikely to be sustained because it was largely caused by cold weather in the US and the temporary closure of a Louisiana refinery.

Gatt prepares to see fair play in trade as 1992 approaches

The Uruguay Round is likely to wield increasing influence on the EC's single market plans, writes Peter Montagnon

WHEN President John F. Kennedy launched the 1962 round of international trade negotiations that bears his name, his explicit purpose was to prevent the introduction of the European Community's common external tariff from leading to an overall increase in protectionism.

With the Uruguay Round, launched in 1986, the boot was initially on the other foot.

Its main purpose, in which the Reagan Administration connived, was to ward off protectionist pressure from an increasingly fractious US Congress. Only later, as the reach of the 1992 single market became apparent, did the Uruguay Round begin to assume a subsidiary role of acting as a counterweight to "fortress Europe".

As the Round reaches its climax this year, it is likely to wield increasing influence over the 1992 programme. Trade negotiators in Geneva will be discussing specific rules that will define just how far the EC can go in setting policy in areas such as reciprocity, rules of origin, and dumping even though the latter is not formally part of the 1992 programme itself.

Similarly, the EC has said it wants to use the Uruguay Round to win concessions from its trading partners that will offset the advantages they reap from access to Europe's newly liberalised internal market.

The quest for such a mutual balance of benefits is a staple part of any negotiation in the General Agreement on Tariffs and Trade. That Gatt should have become an important link between the 1992 process and the outside world seems all the more natural because, in quite a number of areas, the Uruguay Round agenda and that of the EC overlap. Both cover items such as service sector liberalisation, intellectual property, public procurement, import quotas and subsidies.

So far, however, the link has been largely theoretical and unplanned. The fact that the Uruguay Round was conceived to ward off US protectionism is not the only reason why officials have made few direct connections with 1992 in the Gatt negotiations. In addition, the EC was slow to realise the external implications of its single market programme; in a number of areas the internal European debate between protectionists and free-traders has not been fully resolved; and at least in its early stages, the Uruguay Round has been less focused on specifics than the 1992 programme.

Conceptually too, the connection has always been rather loose. The EC has been seeking to introduce absolute freedoms into its market. Any agreed by the broader group which forms Gatt are always likely to be more vague and hedged with qualifications. Nor can the policy approach used to engineer liberalisation of trade in services between a group of 12 relatively homogenous countries be readily transferred to the world scene, where they would have to apply equally from Japan to Jamaica.

As the Round moves on towards detailed negotiations on concrete trade issues, the European Community will none the less increasingly have to confront a number of specific areas where the Uruguay Round will have a practical impact on the 1992 programme and vice versa:

● Intellectual property. The EC is seeking to develop and reinforce common standards of protection in this area. These may conflict with US ambitions – for example, on the length of patent protection and origin appellation for wines.

● Selective restraints. The EC has been seeking to legitimise in Gatt the application of selective restraints against disruptive imports. Currently such safeguard action has to be non-discriminatory and apply to all imports whatever their origin. If the EC succeeds in achieving this change, it will find the task of unwinding – as part of the 1992 programme – the national import quotas, many of them unofficial, that affect trade between its members and the rest of the world.

● Trade-related investment rules. This issue, currently being discussed in Geneva, lies at the heart of the concerns of of Europe's trading partners. After months of dithering, the European Community has now finally acknowledged to its Uruguay Round partners that local content rules are an inadmissable barrier to foreign investment. This was hailed by some as a significant victory for Japan, which has been increasingly worried about the implications of potential local content rules on its European industrial investments.

1992 THE EUROPEAN MARKET

● Rules of origin. Japanese officials say that, following uncertainty over the nationality of printed circuit boards used in electronic products, they are anxious to deal with the question of rules of origin in the Uruguay Round. Despite vehement public denials by the Commission, many suspect the EC of attempting to subvert rules of origin, which are, in theory, strictly neutral and objective, and make them an instrument of trade policy. Depending on how they are applied, they can be used to declare a product, wherever it is assembled, as coming from a country from which exports are subject to dumping duties.

● Reciprocity. Although the EC has watered down its approach to reciprocity after the international outrage that greeted its original draft banking directive, it is still anxious to apply the idea to the new areas such as services and public procurement where it believes it is more liberal than the rest of the world.

The problem lies in defining what this means. Here the Gatt round should help by clarifying just how far the EC can go with its demands.

While it is generally agreed that free trade in services involves applying the same regulations to every company in any one sector regardless of whether their origins are foreign or domestic, the EC is tempted to go a little further.

It says simple non-discrimination may not be enough to give foreign providers real access to markets. In banking, for example, foreign banks whose name is unfamiliar to the public may have to bid above officially regulated interest rate levels to win deposits from the public. In such cases, the EC wants to be able to negotiate extra concessions that go beyond non-discrimination but provide assurance of genuine market access. The Uruguay Round discussion on trade in services will help determine whether this approach is legitimate.

While some international trade officials believe the Uruguay Round has given the EC Commission a tool for pushing internal liberalisation of the European market in telecommunications, the process works the other way too. Brussels officials say the EC should use its own liberalisation programmes – for example in telecommunications – to press through the Uruguay Round for greater liberalisation on a world scale. One area where this is being considered is public procurement.

Commission officials say liberalised European public procurement rules after 1992 will almost certainly be more generous than those of most other major industrial countries, including Canada, the US and Switzerland where regional governments can be as restrictive as they like.

The EC would thus be naked in Gatt if it did not retain something to give away in return for liberalisation by others – for example, agreement by the US to drop its "Buy America" procurement policy. The Commission has thus been seeking to write stipulations into the new rules on European content and preference.

Member governments failed to agree on this shortly before Christmas. The more liberally minded were concerned that the need for negotiating leverage was simply an excuse for protectionism. This debate may not be resolved for several more weeks, but the issue is now inextricably and explicitly linked to the Uruguay Round.

In some areas of overlap the need to work on both 1992 and the Uruguay Round have thrown up a revealing inconsistency in European thinking.

Sir Leon Brittan, the competition Commissioner, has made it clear, for example, that he aims to be strict on subsidies after 1992. In its submission to Gatt on this, however, the EC still sought to legitimise the subsidies granted by West Germany to the Airbus consortium earlier this year in the form of exchange rate guarantees. The Gatt paper was not, said one official, as tight as purists would have liked but it had to be distilled out of input from all relevant parts of the Commission.

That trade policy cuts across so many of the 1992 subjects, came as a surprise to many in Brussels. Whatever its outcome, the Uruguay Round shows that the range of Gatt is expanding into hitherto undreamt of areas. As one Commission official put it: "It is no longer a question of just agreeing among ourselves. We have to justify our decisions *vis-à-vis* the rest of the world. Gatt certainly forces us to question what we are doing."

FINANCIAL TIMES
Published by the Financial Times (Europe) Ltd., Frankfurt Branch, (Guiollettstrasse 54, 6000 Frankfurt-am-Main 1; Telephone 069-75980; Fax 069-722677; Telex 416193 represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, R.A.F. McClean, G.T.S. Damer, A.C. Miller, D.E.P. Palmer, London. Printer: Frankfurter Societaets-Druckerei-GmbH, Frankfurt/Main. Responsible editor: Sir Geoffrey Owen, Financial Times, Number One Southwark Bridge, London SE1 9HL.

FINANCIAL TIMES, USPS No 190640, published daily except Sundays and holidays. US subscription rates $365.00 per annum. Second-class postage and at New York NY and at additional mailing offices. POSTMASTER, send address change to: FINANCIAL TIMES, 14 East 60th Street, New York, NY 10022.
Financial Times (Scandinavia), Ostergade 44, DK-1100 Copenhagen-K, Denmark, Telephone (01) 13 44 41, Fax (01) 935335.

Panama invasion unique, US tells Latin America

By Peter Riddell, US Editor, in Washington

THE US is seeking to reassure Latin American countries its intervention in Panama is not a precedent for other actions, as it faces increasing problems with Colombia over proposals to use military and naval forces in the war on drug trafficking.

The Pentagon has prepared plans to send an aircraft carrier battle group to international waters off Colombia as a step to more limited naval and ground-based radar surveillance. There were reports yesterday that after the Panamanian invasion, the Colombian Government was sensitive to proposals which might be seen as military intervention or a blockade.

Mr Brent Scowcroft, President George Bush's National Security Adviser, yesterday admitted "some difficulties" which, he said, resulted from "premature, inaccurate leaks". The plans had not really been discussed with Colombian and he was sure there would be agreement on improving interdiction of drug movements around Colombia. Rejecting a blockade, he said any action would be in co-operation with countries in the region.

There has been disagreement within the Bush Administration on the issue, with law enforcement agencies having doubts about the scope for military action beyond surveillance and training, in view of legal and practical problems. Mr Bush is expected to resolve these problems within the next week, so that details can be announced before his one-day visit to Colombia in mid-February.

Vice President Dan Quayle visits Latin America later this month to offer reassurance. Mr Scowcroft said yesterday the Panamanian operation was unique, not a precedent. Mr Dick Cheney, Defence Secretary, denied Panama marked a major departure in foreign policy, creating a Bush doctrine of military intervention to enforce free elections. Mr Lawrence Eagleburger, deputy secretary of state, said it was "highly unlikely" the US would act in Nicaragua as in Panama.

Mr Eagleburger suggested that, while several governments had opposed the US reaction, some were happy with the outcome. The officials denied there were any deals with Gen Manuel Noriega, the former Panamanian leader now in Miami facing drug trafficking charges.

Mr Frank Rubino, Gen Noriega's lawyer, said his client was not interested in plea bargaining and wanted to face trial.

I was not Noriega's number one, says ex-Israeli agent

Jerusalem has denied any hidden ties to the former Panamanian dictator, reports Hugh Carnegy

THE former Israeli secret service officer whose shadowy and intriguing presence was a recurrent theme in the life of the now-defunct Panamanian régime of General Manuel Antonio Noriega turned up on Israeli TV at the weekend proclaiming his innocence of any wrongdoing.

Mr Mike Harari, 62, once Mossad intelligence agency chief in Mexico and Central America, said he had left Panama under his own steam and returned to Israel after the US moved to overthrow Gen Noriega on December 20. He denied ever being held by US troops or being tipped off by Israeli officials in advance of the invasion.

Mr Harari blamed his reputation as a key adviser to Gen Noreiga on a campaign of disinformation against him. "I'm not Noriega's adviser and I never was. I am not number one and I am not number two. I am simply a private man dealing with business." He said he quit the Israeli Government service in 1980 and thereafter followed two rules: not to deal with intelligence and security matters, or with arms dealing. "Noriega is not my partner. I didn't run his business, I didn't manage or instruct his forces. I didn't organise his personal bodyguards," Mr Harari said, adding he only dealt with civilian projects.

His account hardly squares with the picture of strong influence within the Noriega set-up widely credited to Mr Harari over the past few years, built up since they were introduced by former Panamanian leader Gen Omar Torrijos. It will have raised many an eyebrow, for the role attributed to him fitted a broader pattern of Israel's frequently clandestine links to Central America going back to when the region was a source of vital diplomatic support for Israel in the UN.

The version of events with which Mr Harari's account does fit is the official position of the Israeli Government. Embarrassed by tales of its former agent's exploits, and suggestions he maintained links with the Government, Jerusalem has for some time asserted it no longer had anything to do with Mr Harari, nor had Israel any hidden ties to Noriega. "A lot of legend built up around Mike Harari," said a Foreign Ministry spokesman. "It's more down to earth than that. Maybe there are (Israeli) experts on irrigation or advisers on agriculture (in Panama). But no more than that." These disclaimers sound unconvincing because of Israel's record in the region. Yet they do signify changes in recent years in the balance of its ties to Panama and other Central American countries.

The most recent official attitude to Noriega shows how Israel's relations in the region sometimes complement, sometimes cut across, its all-important relationship with the US. When Gen Noriega was a favoured figure with links to the CIA, Israel's ties with Panama, including arms sales and other military links, were not an issue. But once Noriega became the object of US hostility, Israel, officially at least, began distancing itself from his régime.

Israel has been happy in the past to play, in effect, the role of US proxy in Central America, showing little compunction about with whom it dealt, especially when lucrative markets for its military industries were the prize. In 1982, before the Reagan Administration swung its support fully behind the Government in El Salvador, an estimated 80 per cent of military purchases by that country were sourced in Israel.

Harari: 'civilian projects'

Israel has been a major supplier of arms to right-wing régimes in Guatemala, Honduras and to the then-Somoza Government in Nicaragua. There was also Israel's alleged involvement in the Iran-Contra affair.

The heyday of Israeli arms sales to Central America passed some years ago, according to Dr Edy Kaufman, a Latin American specialist and director of the Truman Institute at Hebrew University. Exports rose sharply in the late 1970s and early 1980s on the back of President Carter's policy of barring military sales to countries which abused human rights. But, having reached about $50m (£31m) a year to Central America (and perhaps more than $500m to all Latin America), sales declined as Reagan policies took effect.

Thereafter, the emphasis shifted from direct deals with the Israeli Defence Forces, or Israel's big defence contractors, towards smaller contracts for small arms, security equipment, training of all sorts and intelligence advice brokered by agents and private companies usually staffed by retired IDF personnel. This is the pattern into which Mr Harari was widely believed to have fitted.

Such links clearly offer intelligence and political opportunities for the Government in gaining access and influence in otherwise difficult areas. But how far the Israeli Government is involved, beyond compulsory Defence Ministry export sanction where required, is hard to gauge. "In Central America, it is hard to distinguish between officialdom and the work of Israelis in a private capacity," Dr Kaufman wrote recently.

Israel's motives for its links to Central America have been several. It has valued diplomatic support from the region in a frequently hostile UN; it has seen trade opportunities, especially for its important arms industry, which employs 20 per cent of the workforce; it has often been able to help out its most important ally, the US; and it has been concerned to secure the position of Jewish communities under Central American régimes.

But none of these is straightforward any more. In the expanded UN, Central American influence has declined; in overall terms, the trade value is small; when régimes change, previously protected Jewish communities can become exposed, as some now fear in Panama; and in the US, pleasing one element, such as the CIA, may upset another, such as Congress.

Deciding what is in Israel's best interest has been fogged by what Dr Kaufman calls the jungle of decision-making, where the Defence Ministry, for example, frequently works to different goals - and overrules - the Foreign Ministry. The Foreign Ministry would almost certainly prefer a less opportunistic approach to Central America. Its evident discomfort over Panama will only reinforce that preference.

Uncertainty plagues US vehicle makers

By Kevin Done, Motor Industry Correspondent, in Detroit

US vehicle makers enter the 1990s plagued by uncertainty, as sales weaken dramatically, their share of the domestic car market falls, profit margins are squeezed, and over-capacity increases, with Japanese assembly plants rapidly building up production in North America.

For the first time last year, a Japanese car, the Honda Accord, emerged as the best-selling single model in the US car market. Honda sold 362,707 Accords, the majority built at its assembly plant in Marysville, Ohio, outperforming its nearest rivals, the Ford Taurus and the Ford Escort.

In December, both Toyota and Honda outsold Chrysler in the US car market, pushing the smallest of the "big three" US producers into fifth place. But Chrysler still maintains a heavy presence in the overall car and light truck market, with strong sales of passenger-carrying minivans and four wheel drive leisure/utility vehicles proving increasingly popular with US car buyers.

All the leading Japanese car makers increased their share of the US market, largely because of growing output from their so-called transplants — local assembly plants built in North America.

In contrast, both General Motors and Chrysler have lost further market share, with only Ford managing to capture a bigger slice of the declining market. Most of the European car importers also suffered heavy falls in sales last year.

Many US car assembly lines are temporarily shut, as car makers act to bring production into line with falling sales. Ford warned recently that excess car capacity could reach 8.4m units worldwide by the early 1990s, of which as much as 60 per cent would be in North America.

US auto industry sales — cars and light trucks — fell by nearly 6 per cent in 1989, to total less than 15m for the first time since 1985. Car sales fell by 6.5 per cent to 9.87m, while light truck sales fell by 4.1 per cent 4.68m. Sales have plunged steeply in the final three months of the year, despite sales incentive campaigns. Although there were some signs that sales were falling less heavily in the last 10 days of December, car sales in the whole of last month were 22.6 per cent lower than a year earlier and light truck sales were 7.8 per cent lower, giving an overall fall in the US auto market of 18.1 per cent.

GM, which has suffered an almost continuous erosion of its US car market share during the 1980s despite huge capital investments, suffered a further fall in 1989 to 34.8 per cent from 36.2 per cent a year earlier. Chrysler's share fell to 10.3 per cent from 11.3 per cent, while Ford succeeded in boosting its share slightly to 22.1 per cent from 21.7 per cent in 1988.

Honda remains the top-selling Japanese car maker in the US market, with a share of 7.9 per cent in 1989 against 7.3 per cent a year earlier, while Toyota raised its share to 7.3 per cent from 6.5 per cent and Nissan increased its share to 5.2 per cent from 4.5 per cent.

General Motors said its overall vehicle sales volume in the US fell 7.5 per cent to 5.1m cars and trucks. Car sales fell 10.1 per cent to 3.44m, while truck sales fell 1.9 per cent to 1.71m. Ford's total vehicle sales fell 4 per cent to 3.64m, of which car sales declined 4 per cent to 2.18m and truck sales fell 4 per cent to 1.46m. Chrysler's car sales dropped 13.8 per cent to 1.02m, while truck sales fell 2.6 per cent to 984,000.

US 'tobacco death' verdict is overturned

THE US Appeals Court has overturned the only verdict ever requiring a tobacco company to pay damages to the family of a smoker who died of lung cancer. But the decision was hailed as a victory by anti-smoking forces and the tobacco lobby, Anatole Kaletsky reports from New York.

The conflicting reactions to the judgement by the US Court of Appeals in Philadelphia reflected the the court's decision to reinstate several grounds for litigation against tobacco companies, while rejecting the jury's specific findings. The case involved the family of Mrs Rose Cipollone, who died of lung cancer after 42 years' smoking.

In 1988, a New Jersey jury ordered the Liggett Group which made the cigarettes smoked by Mrs Cipollone to pay her family $400,000 damages. But the jury decided Liggett's liability was limited because Mrs Cipollone kept smoking cigarettes after the company began to publish government health warnings in 1966. The jury decided she bore 80 per cent responsibility, with the company liable only for misleading advertising, rather than more seriously, failing to warn her of risks to her health.

The appeals court found the jury had been incorrectly instructed on both main aspects of the case. On one hand, it overturned the $400,000 damages for misleading advertising because it said there was insufficient evidence Mrs Cipollone had seen and believed the advertising. On the other, the jury should have considered Liggett's marketing practices, even after it started printing the warnings, implying it might be liable if these marketing practices contributed to her death.

WORLD ECONOMIC INDICATORS

FOREIGN EXCHANGE RESERVES (US$m)

	Nov.'89	Oct.'89	Sept.'89	Nov.'88
UK	31,191	32,196	34,690	41,063
W. Germany	54,811	54,836	53,007	56,332
Japan	78,005	77,790	79,605	89,964
Belgium	9,431	9,182	9,223	8,369
Italy	42,110	44,639	44,708	31,902
Netherlands	14,940	14,621	14,772	15,225
	Oct.'89	Sept.'89	Aug.'89	Oct.'88
US	41,552	39,080	33,413	19,603
France	22,117	22,995	23,222	23,257

Source: IMF

Spain to give $4bn economic aid to Mexico

SPAIN will agree to inject about $4bn (£2.5bn) into Mexico's debt-ridden economy when King Juan Carlos visits the Latin American country this week, Reuter reports from Madrid.

Spanish officials said the monarch's second state visit to Mexico to sign the landmark economic pact showed Spain's interest in strengthening ties with its former colonies ahead of the 500th anniversary of Columbus' discovery of America.

Spain is hoping for a strong Latin American presence at a World Fair scheduled for Seville in 1992 to mark the anniversary of the discovery.

King Juan Carlos and Queen Sofia will arrive tomorrow for their six-day trip.

The five-year Treaty of Friendship and Co-operation with Mexico is similar to a $3bn agreement concluded with Argentina two years ago.

Officials said Spain would provide $1.5bn-worth of credits, half in development aid and half in soft loans.

Another $2.5bn will be aimed at boosting Spanish business and joint ventures, to balance trade exchanges traditionally favourable to Mexico.

The treaty, to be signed on Thursday, includes accords to fight terrorism and drug-trafficking.

It is also intended to include agreements to boost political links and develop scientific and cultural co-operation.

Mexico's foreign debt totals around $100bn.

France condemned for restoring links with Kabul

By Our Foreign Staff

THE most radical Afghan resistance leader, Mr Gulbuddin Hekmatyar, has strongly condemned France for its decision to send diplomats back into Kabul.

A French diplomatic source confirmed on Friday that Paris had decided in principle to send diplomats back to the Afghan capital almost a year after they and other nations left.

Some Eastern bloc countries have already returned, but France will be the first Western nation to break ranks and restaff its mission.

Radio Moscow reported yesterday that Italy and Germany were also considering sending back diplomats.

Mr Hekmatyar, fundamentalist leader of the Hezb-i-Islami guerrilla group, said France would end up regretting its decision. "It will be like an unwanted guest visiting somebody at the deathbed," he said.

European diplomatic sources say now that they were bulldozed into leaving Kabul by the US, the main backer of the mujahideen rebels fighting to overthrow the Afghan Government. At the time, they said they were following the US lead because of security fears in the run-up to the final withdrawal of Soviet troops from Afghanistan last February.

Washington and the Pakistan-based rebels confidently predicted that the Kabul Government led by President Najibullah would collapse within weeks of the departure of the Soviet troops. Instead, he has survived with massive material support from Moscow, while the rebel government-in-exile remains riven by factional infighting.

Mr Hekmatyar walked out of the Afghan interim government last August, after they failed to agree upon holding elections among Afghan refugees and in mujahideen-held areas.

Gulbuddin Hekmatyar and a defector from the Kabul régime, Col Abdul Sami Aziz: "Like an unwanted guest at the deathbed"

China accuses Paris-based democracy group of sabotage

CHINA accused a Paris-based pro-democracy group yesterday of carrying out sabotage against China and forming an alliance with Taiwan's secret service, AP reports from Peking.

The Peking Public Security Bureau said the Front for Democracy in China, led by Chinese exiles abroad, was a reactionary organisation attempting to overthrow China's socialist system.

A Security Bureau official, in an interview with the official Xinhua News Agency, said China bans all FDC activities on Chinese territory.

Xinhua also quoted an official of the Public Security Ministry as saying it had revoked the passports of Wan Runnan, an entrepreneur, Yan Jiaqi, a political scientist, and Chen Yizi, an economist. All three are pro-reform activists who fled China after the military crackdown on the pro-democracy movement in Tiananmen Square last June.

They have played active roles in the FDC and the pro-democracy campaigns of Chinese living abroad.

The Peking Government took a strong stand against the FDC and its leaders when the group was formed in Paris last September.

Following the recent political changes in Eastern Europe, particularly the overthrow of Romania's pro-China communist Government, Chinese leaders have emphasised they will not tolerate any challenge to Communist Party rule and the socialist system.

The Public Security Bureau official, who was not identified by Xinhua, said the nation's constitution prohibited all sabotage of the socialist system and stipulated that the state would suppress "treasonable and other counterrevolutionary activities".

He said that Yan and other FDC leaders were criminals acting "with the connivance and support of overseas reactionary forces" and that since its founding, the FDC had carried out sabotage activities against China.

He said the organisation had "deceived and roped in some Chinese studying abroad, made contacts with hostile elements in and outside China, expanded the reactionary organisation and tried hard to infiltrate into China."

The only example he gave of "infiltration" was attempts by the FDC to send to Chinese offices by facsimile machine imitations of the party's official People's Daily carrying pro-democracy articles.

● China will repay its more than $40bn of foreign debt without serious problems despite a 21.2 per cent devaluation of the currency last month, Reuter reports from Peking.

The China Daily yesterday also quoted Tang Gengyao, director of the State Administration of Foreign Exchange Control, as saying that China had gold reserves of 12.7m oz.

Iran envoys visit Moscow after riots on border

IRAN sent a foreign ministry team to the Soviet Union at the weekend amid rioting on their common border by Soviet Moslems seeking easier access to the Islamic Republic, Reuter reports from Nicosia.

The Iranian news agency IRNA quoted "informed sources" as saying the delegation, headed by Mahmud Vaezi, Deputy Foreign Minister, carried a message from Ali Akbar Velayati, Iran's Foreign Minister, for his Soviet counterpart, Mr Eduard Shevardnadze.

It quoted the sources as saying the message dealt with mutual ties, but did not specify if this included unrest in neighbouring Soviet Azerbaijan, where crowds tore down border installations on Saturday.

Shia Moslem Azeris live on both sides of the border. Southern Soviet Azerbaijan belonged to Iran until 1920.

Iran and the Soviet Union agreed at the weekend to provide special help for Soviet citizens wishing to visit Iran from Azerbaijan, where rioters tore down border fences at the weekend.

IRNA, monitored in Nicosia, said Iranian and Soviet ministers had signed an agreement in Moscow under which "special tourism and travel facilities for the people of Azerbaijan" would be established.

In Azerbaijan, local journalists said patrolling Soviet troops did not intervene when crowds attacked border sites on Saturday.

● Iran dismissed as a "campaign of public deception" an Iraqi proposal for reviving stalled peace talks between the two countries, IRNA reported on Saturday.

The agency said the Iranian criticism of the offer, made by Iraqi President Saddam Hussein, was contained in a memorandum issued on Friday in New York by the Iranian mission to the UN.

Iran, however, did not reject outright the Iraqi initiative.

Iraq to repay $3bn of its foreign debt this year

IRAQ will repay $3bn (£1.9bn) of its foreign debt this year, Mr Mohammed Mahdi Saleh, Trade Minister, said yesterday, Reuter reports from Baghdad.

"The government policy is based on reducing the country's foreign debt," Mr Saleh, who is also acting finance minister, told a news conference.

He did not give a figure for Iraq's total foreign debt, but Western news reports have previously estimated Baghdad's non-Arab debt at more than $35bn.

Mr Saleh said Iraq was reducing short-term credit deals and was giving preference to medium- and long-term deals which included cash payments. He said as part of its new policy Iraq had cancelled a short-term credit deal with Britain.

"We have actually started to import by cash payment," Mr Saleh said. He added that Iraq planned to reduce state spending by 12 per cent. Baghdad's economic priorities were reducing both the deficit and spending, thus lowering inflation and raising productivity.

Iraq's national assembly last month ratified spending in 1990 of 11.1bn dinars (£22bn at official exchange rates).

Baghdad newspapers said last week Iraq's deficit was projected at 6.6bn dinars compared with the 1989 deficit of 7.2bn dinars.

Asked if the 1990 budget took account of the private sector, Mr Saleh said: "We have decided to freeze allocations for the private sector this year."

He said a scheme allowing the private sector to import commodities without using foreign exchange, which started two years ago, would continue.

Mr Saleh said Iraq had signed a $500m credit agreement with the US to cover farm imports three months ago. Washington had promised to grant Iraq $1.8bn in credits this year, the same as last year, he added.

Khmers claim heavy fighting

KHMER Rouge guerrillas claimed yesterday that their forces were engaged in heavy fighting in Cambodia's second largest city, setting it ablaze and forcing government troops to call for reinforcements, agencies report from Bangkok.

The report, carried on the guerrilla radio, could not immediately be independently confirmed. If true, it would be one of the biggest clashes in the 11-year war against the Vietnamese-installed Government.

The radio claimed the guerrillas hit the north-western provincial capital of Battambang, 127 miles north-west of Phnom Penh, from midnight on Friday. They attacked the 5th Military Region's command there and in western Pursat province and north-western Banteay Meanchey province. The Bek Chan airfield was among the targets reported hit in Battambang.

The radio claimed Battambang town "burned brightly" before dawn on Saturday and "the fire was still raging at dawn".

Defenders in Battambang, called in tanks to support them after the attack was launched on Friday, the radio, monitored in Bangkok, said. As the government armour and reinforcements approached the town they were ambushed and partly routed by the Khmer Rouge.

The attack would be the most significant since the guerrillas seized the rich gem-mining town of Pailin, 45 miles south-west of Battambang, on October 22 after weeks of intense battle.

The war erupted after Vietnam invaded Cambodia in 1978 and replaced the Khmer Rouge with another Communist government.

Czechs elect executive to replace politburo

The Central Committee of the Czechoslovak Communist Party elected a new 24-member executive body to replace the former ruling Politburo, the official CTK news agency reported on Saturday, AP reports from Prague.

The new, streamlined, 140-member policy-setting Central Committee met for the first time since its formation at the party's extraordinary congress in December.

The new executive body includes the party's chairman, Mr Ladislav Adamec, first secretary, Mr Vasil Mohorita, and three newly elected secretaries, CTK said.

Mr Adamec, speaking to the Central Committee on Saturday supported the idea of national understanding, but stressed that differences between Czechoslovakia's political forces remain.

ANC guerrilla warning

The African National Congress (ANC) has threatened to intensify its guerrilla campaign if it is not given the same political rights as South Africa's ruling National Party, writes Michael Holman.

The threat is at odds with the situation on the ground however. ANC guerrilla activity has virtually ceased in what appears to be a de facto cessation of hostilities which began last autumn.

In a statement due to be issued today marking the ANC's 78th anniversary, the organisation said its members "would not be terrorised into negotiations and could not be expected to enter into such a process until they enjoyed the same freedom to engage in political activity" as the National Party.

Brunei frees detainees

The oil-rich sultanate of Brunei has released six political detainees held under its Internal Security Act since an abortive revolt 27 years ago which was suppressed by British-led Gurkha troops, Reuter reports from Kuala Lumpur.

Human rights group Amnesty International claimed in a recent report that five of the six had been detained "not for their roles in the 1962 rebellion, or for being a threat to national security, but as a general deterrent to opposition activity and because of their consistent refusal to sign what amounts to an admission of guilt".

Beirut Green Line fighting

Christian army troops and Syrian-backed Moslem militiamen traded mortar and tank fire across Beirut's dividing Green Line for a second day yesterday, kindling fears of a new round of all-out civil war, AP reports from Beirut.

The clashes also forced the closure at the weekend of the Museum Crossing, the only gateway between the two sectors of the capital. Police said it was the gravest violation of a cease-fire called by the Arab League on September 22.

Venezuelans hold debt talks

Venezuelan debt negotiators flew to New York yesterday for what may be final negotiations on reducing Venezuela's $33bn (£20bn) foreign debt, the fourth largest in Latin America, AP reports from Caracas. Caracas newspapers quoted sources in the government as saying negotiations with a bank advisory comittee headed by Chase Manhattan Bank were in the last stages.

Liberians flee to Ivory Coast

Liberian refugees have poured into neighboring Ivory Coast to escape fighting in a border area and claim soldiers have shot and killed an unknown number of civilians, a report said yesterday, AP reports from Monrovia.

Diplomats have said it is difficult to determine the number of Liberians fleeing hostilities in the region, 100 miles north-east of Monrovia, but some reported the figure as high as 8,000 to 10,000.

China ends barter with Poland

China is ending its barter trade arrangements with Poland and is discussing a similar move with Hungary, the China Daily said yesterday, Reuter reports from Peking. The newspaper said that all trade with Poland this year would be for cash.

China has long maintained barter trade with other socialist countries, all of them short of hard currency.

Jakarta bid to reassure investors

THE Indonesian Government has moved quickly to stem foreign investors' concern after President Suharto's surprise statement last week that co-operatives be provided with a 25 per cent stake in both national and foreign joint venture companies, writes John Murray Brown in Jakarta.

The idea outlined in President Suharto's annual budget speech to Parliament on Thursday, if implemented, would add up to a radical restructuring of the corporate sector, reminiscent of Malaysia's controversial New Economic Policy.

But speaking after a meeting with the president on Saturday Mr Radius Prawiro, the chief economics minister, stressed it was simply an appeal to the private sector and would not be followed by legislation.

But with so many of the 34,000 co-operatives in poor financial shape many economists believe this latest idea will be difficult to implement. According to President Suharto it would require companies to provide shares which the co-operatives pay for by forgoing their future dividends.

The announcement is seen more as a political gesture to dispel growing public resentment against the big private businesses, some of them associated with President Suharto's children, who are seen to have benefited from the recent economic reforms.

India and Sri Lanka to sign friendship pact

By K.K. Sharma in New Delhi

INDIA and Sri Lanka have decided to sign a friendship treaty soon, probably within a month, ending the strains in their relationship which followed attempts by the Indian army to settle problems created by Tamil militants in Sri Lanka.

They have also agreed jointly to use their influence with various Tamil factions to end the fighting between them in northern Sri Lanka, where rival groups are engaged in a bloody bid to win territory as Indian troops withdraw.

The aim is to bring home to the factions that the Indian and Sri Lankan governments are working together to bring peace to the Tamil-majority areas where factions led by Tiger militants and groups supported by the Indians are locked in battle.

This was agreed during two-day talks held between India's Minister of External Affairs, Mr I.K. Gujral, and Mr Ranjan Wijeratne, Sri Lankan Foreign Minister, at the weekend. The agreement between them marks the second successful effort by the new Indian Government to improve relations with neighbouring countries.

Last week, talks between Mr Gujral and his Nepali counterpart, Mr S.K. Upadhyaya, led to an understanding between them on various issues. This is expected to lead to signing of trade and transit agreements soon, ending strained bilateral relations between them arising since last March when the Gandhi Government refused to extend the existing treaty.

Although strains in Indo-Sri Lanka relations have eased considerably after the weekend's talks between their foreign ministers, the Indian Government has not yet agreed to pull out its troops from the island earlier than March 31 as sought by Sri Lanka.

Mr Gujral has agreed to review the schedule for the withdrawal but has not promised to complete this before March 31, the date set by India for a total pull-out. Sri Lanka has sought an earlier withdrawal on the ground that it cannot start preparations for a summit meeting of the South Asian Association for Regional Co-operation in April while foreign troops are in the country.

S Korean opposition plans conservative alliance

By Maggie Ford in Seoul

TWO South Korean opposition leaders have signalled their intention to co-operate in forming a conservative union party, the first move in a likely realignment of the country's political system.

Mr Kim Young Sam, the leader of the Reunification Democratic Party, and Mr Kim Jong Pil, the president of the smaller New Democratic Republican Party, said they would work closely in establishing a new political order.

At the same time, President Roh Tae Woo has appointed a new leadership for his ruling Democratic Justice Party in the wake of last week's parliamentary testimony by former President Chun Doo Hwan.

Mr Park Tae Joon, chairman of Posco, the highly successful state-owned South Korean steel company, is to be chairman of the party. Mr Park is a former general who served under former President Park Chung Hee in the 1960s. He is related by marriage to former President Chun.

Mr Park has devoted his time to business for many years and is regarded as a relatively neutral figure. Two close allies of Mr Chun were also appointed to top posts in an apparent effort by the president to heal divisions in the party resulting from the decision to make Mr Chun testify.

A number of younger parliamentarians in Mr Kim Young Sam's party have protested at his alliance plan. They believe he should instead ally himself with the largest opposition party, led by Mr Kim Dae Jung.

The political moves have been prompted partly by local elections due in South Korea in the first half of this year.

Membership of all the political parties is now based on regional allegiances dating from South Korea's long period of dictatorship, rather than on ideology or policy.

Upheaval in Eastern Europe may save Kaifu's job

Japan's premier will use his trip to promote his country's role in world affairs, reports **Ian Rodger**

WHEN Japanese Prime Minister Toshiki Kaifu announced last October that he wanted to make official visits to East and West European countries in January, this was widely interpreted as a clever tactic to enhance his precarious political position at home in the run-up to a general election.

However, events in Eastern Europe have proceeded at such a pace that his seven-country, nine-day tour, which begins today in Bonn, has taken on considerable diplomatic significance as well.

Japanese foreign ministry officials, long criticised abroad because their country has not taken a role in world affairs commensurate with its economic strength, have seized on the visit as a god-sent opportunity to wrest the foreign policy-making initiative from the dreary politicians and bureaucrats concerned only with Japan's narrow economic interests.

Thus, Mr Kaifu will be delivering a number of general foreign policy messages during the trip, mainly in a speech at the Japanese cultural centre in West Berlin tomorrow, and backing them up with some concrete action and proposals.

● First, Mr Kaifu will say that Japan enthusiastically supports the reform movements in Eastern Europe as well as the idea of European unification. The country, which up to now has seldom showed much interest in other peoples' causes, "wants to be identified with the values" driving reform in Eastern Europe, a foreign ministry official said last week.

Japan has already shown its sincerity by pledging $150m in yen loans to Poland as part of the co-ordinated effort of the group of 24 countries. Foreign diplomats in Tokyo point out that Japan's whole-hearted participation in that programme is in itself something of a breakthrough. Previously, it has tended to be a sluggish follower in such ad hoc multilateral efforts.

Mr Kaifu will also announce further aid measures for Poland and Hungary when he visits Warsaw and Budapest early next week, including $50m in food and technical aid for Poland and $25m in technical assistance for each.

Big untied loans from the Export-Import Bank will be pledged and export insurance lines will be opened for Japanese exporters. Moreover, the prime minister will make clear that these efforts are exemplary. Similar support will be available to other East European countries as their economic reform programmes take shape.

● Everywhere they go, Mr Kaifu and his officials will spend some time trying to convince European leaders that Japan is not to blame for the lack of a reform fever in the Asia-Pacific region comparable to that in Europe. Japan has taken a tough line in a territorial dispute with the Soviet Union over four islands in the Kuriles occupied by the Soviet Union at the end of the Second World War, believing that the Russians will eventually give ground to get access to Japanese industrial technology. However, Japanese officials do not think this issue is preventing an overall reduction of tensions in east Asia. They believe Moscow has permitted reform in Eastern Europe because it has a vested interest in Europe.

In east Asia, however, the geo-political situation is more complex and the Soviet Union's position less decisive. China has considerable influence and the US navy plays a dominant role in regional security. Thus, the Japanese believe, arms reduction negotiations, for example, will be more difficult in Asia than in Europe and, despite the INF example, probably cannot in the future be run in tandem with European talks.

"Japan is in a peculiar situation. We cannot participate in the Soviet Union's peace initiative, but in no way are we trying to drag our feet," a senior foreign ministry official said last week.

Perhaps by coincidence, a long-planned visit by Mr Shintaro Abe, the former Japanese foreign minister, to the Soviet Union was suddenly confirmed at the weekend, raising hopes in Tokyo that some progress on the islands issue will be made when Mr Abe meets Mr Gorbachev next Monday.

● Japanese diplomats also want to launch a fresh attempt on this trip to strengthen relations with the European Community. They believe that the three leading industrial powers in the world, the US, Japan and the EC, must work increasingly closely if the world is to progress, and as US-Japan relations have become more fraught, their concern about the weakness of the Japan-EC link in the triangle grows. In Brussels, Mr Kaifu will have talks with the EC Commission President Jacques Delors and may propose the establishment of a new forum for bilateral political consultations.

Europeans are entitled to wonder if all this is just more posturing and if the Japanese are once again simply taking a long view of their own economic interest. After all, Mr Noboru Takeshita, the former prime minister, went to London nearly two years ago to make a similar plea for deepening Euro-Japanese relations, and nothing much has come of that.

Only time will tell. Certainly, there are still many politicians and bureaucrats in Japan who prefer to ignore the concerns of other countries. However, the case of the internationalists is being helped in no small way these days by the extraordinary interest that the Japanese people have taken in the events in Eastern Europe.

As a rule, the Japanese people and their news media are extremely parochial, and even strong foreign stories are routinely relegated to the inside pages or 30-second briefs on the television news. But Eastern Europe stories have dominated the newspapers and the television news programmes for weeks, and the media have sent squads of reporters and camera crews to the region. It would be rash to suggest that this enthusiasm for foreign affairs will last, but the internationalists are at least taking advantage of a favourable wind.

Mr Kaifu too is luckier than he had reason to expect when he proposed the European tour. The prime minister, it will be recalled, was catapulted into office last summer when the scandal-rocked ruling Liberal Democratic Party (LDP) could not find anyone else suitably clean. By any evaluation, he has done reasonably well in the job. He has restored order to the conduct of government after several months of confusion and has undoubtedly helped his party to regain public support to the point where it has a fighting chance of maintaining its majority in the forthcoming election, which he has hinted will be held on February 18.

However, he has no political power base in the party, and so it was always only a matter of time before the hard old men who run it began to plot his overthrow. Some of them lobbied for an election in December, after which they planned to sack him, but Mr Kaifu thwarted that by announcing the European trip.

Now, thanks to the high profile in Japan of the Eastern European drama, he has an opportunity to show his countrymen that Japan can be an important part of these historic events. His visits to the Berlin Wall and meetings with Polish and Hungarian leaders who have become familiar faces to the Japanese could be highly effective in boosting his image at home. If he avoids serious pratfalls, and if public pride in him translates into votes, it could be difficult for the party bosses to turf him out for some time.

But Mr Kaifu is not having things all his own way. It just so happens that on the day he will be in Warsaw, Mr Abe, who is the old man considered most likely to succeed him, will be basking in the limelight of a meeting with Mr Gorbachev in Moscow.

Dons fear 7,500 Rover job losses

By John Griffiths

UP TO 7,500 jobs might be lost through the closure of Rover Group's Cowley North and South car assembly works, according to a study being published today by an independent group of Oxford academics. That is three times as many as Rover itself says will go.

When the "knock-on" effect among suppliers of goods and services to Rover and its employees is taken into account, total job losses in the area might be as high as 12,450, the report, from the Oxford Motor Industry Research Project, says.

Last night, the 90-page report was criticised as inaccurate and "alarmist" by Mr Brian Johns, Rover Group's director of external affairs.

Mr Johns said: "We certainly don't recognise any of the figures produced for job losses.

"Our original estimate of 2,500 job losses, which would arise mainly from the closure of Cowley South Works, still stands."

Rover's intention to close Cowley's South Works was first disclosed in July 1988, in documents submitted to the EC Commission's investigation of the terms of Rover's acquisition by British Aerospace.

The plant currently employs 2,300 people, building Rover's Maestro and Montego models. Rover says it will close at the end of 1992.

The intended closure of North works, which employs 1,200 people in assembling Rover's 800 series executive models, was announced only six weeks ago. Rover said the closure would be "in the early 1990s."

The company announced at the same time that it was moving production of the 800 series to Rover's largest Cowley site, a 90-acre body-manufacturing plant – formerly Pressed Steel Fisher – adjoining the North works. Rover said £130m, "the largest single investment ever at Cowley", would be spent there on facilities to manufacture an expanded range of executive cars to succeed the 800 models.

Currently, according to Rover, 4,500 people work at the body plant. Apart from making Rover 800, Maestro and Montego bodies, the plant produces the bodies for Rolls-Royce and Bentley cars and carries out some toolmaking and other engineering activities.

Rover insists that the transformation of the body plant into a full production facility will absorb all but 2,500 of the North and South workers.

However, the academics' report says that only 1,800-2,000 people out of an 8,300-strong workforce are actually engaged in Rover 800 production. It suggests that only a further 322 are employed in toolmaking, 200 in making Rolls-Royce bodies and 250 in other press shop work.

Since there are no plans to produce the successors to the Maestro or Montego at Cowley, "this would mean that in the current situation, 2,572-2,772 jobs might survive, and that 5,728-5,528 people would lose their jobs between October 1989 and the closure of North and South works, if it happened."

The remainder of the 7,500 direct job losses to which the report refers are accounted for by the 1,700 jobs already lost due to "natural wastage" and non-recruitment since the Cowley South closure was first announced.

The report urges a broadly based campaign aimed at preventing the closures.

Cowley Works – why it matters, why it must be saved. Oxford Motor Industry Research Project, 6 Boulter St, Oxford OX4 1AX

DTI plans inquiry into insider deals allegation

Financial Times Reporter

THE Department of Trade and Industry is believed to be planning an investigation into an alleged insider dealing ring in the City of London.

It is understood the investigation will be handled by a prominent lawyer and a leading accountant, although the DTI will neither confirm nor deny a report in The Sunday Telegraph.

The proposed investigation appears to arise from information uncovered by the Stock Exchange during its investigation into an insider dealing scandal, concerning dealing in the shares of Pleasurama ahead of a takeover bid by Mecca in August 1988.

It appears that the inquiries may have found that the deals were part of a widespread insider dealing operation involving several stockbrokers and fund managers employed in the City.

Knight accuses Telegraph chief over publication of angry letter

By Raymond Snoddy

THE INCREASINGLY bitter row between Mr Conrad Black, chairman of The Daily Telegraph, and Mr Andrew Knight, his former chief executive, continued unabated yesterday.

Mr Knight, who is to become executive chairman of News International on March 12, replied to a number of hostile profiles about him in some Sunday newspapers, which were accompanied by the text of an angry letter sent to him by Mr Black on January 2.

In the letter, Mr Black made clear his belief that moving to so direct a rival as Mr Murdoch less than three months after resigning as a non-executive director of The Daily Telegraph "raises substantial ethical questions" and that it was premature "to the point of unseemliness."

It is understood that Mr Peregrine Worsthorne, demoted by Mr Knight from editor of The Sunday Telegraph to editor of the paper's opinion section, and Mr Frank Johnston, an assistant editor, were responsible for the unflattering profile of Mr Knight in yesterday's Sunday Telegraph.

Yet the profile and the personal letter from Mr Black, which found its way into other Sunday newspapers, could not have been printed without the knowledge and, at least, the acquiescence of Mr Black.

Andrew Knight (left) replies to hostile newspaper profiles in an increasingly bitter row with Conrad Black

Yesterday Mr Knight, in a letter, accused his former proprietor of sanctioning the use of the private letter.

After dealing with what Mr Knight claims were inaccuracies in the letter, he adds: "You have provided a very jolly story for the newspapers. But your letter says more about you than about me."

Sir Frank Rogers, deputy chairman of The Daily Telegraph group was adamant that many staff regarded Mr Knight's action as a betrayal. He said Mr Knight had led a team whose strategies included trying to undermine the strength of The Sunday Times, as a competitor.

"Then to join them [News International] to undermine the the team that he has been leading – you can't tell me that is not a moral or ethical question," Sir Frank said.

Observer, Page 12

Labour to discuss Charter of Rights plan

By Ralph Atkins

PROPOSALS for a British Charter of Rights, set out at the weekend by Mr Roy Hattersley, Labour's deputy leader, will be presented to the Labour Party's annual conference in the autumn.

The constitutional proposals, which also include reform of the House of Lords, will form a substantial part of Labour's continuing policy review.

Mr Hattersley's suggestions, announced at a Fabian Society conference in Oxford, detail practical steps a future Labour government would take. They build on broad principles set out in the policy review debated last year in Brighton.

Mr Hattersley said: "The whole thrust of our policy review is the determination to define those rights which ought to be universal and to ensure they can be exercised – in practice as well as in theory – by an increasing number of men and women."

The party believes policies to protect freedom, increase open government and to protect individuals against invasion of privacy can be developed early in the election cycle without fear of creating hostages to fortune. None of them involves large-scale public expenditure.

The Charter of Rights would include a Freedom of Information Act based on the presumption of a citizen's right to know. A Security Services Act would bring both MI5 and MI6 under the supervision of a special Commons committee.

In Parliament, a new second chamber with elected members and specific powers to delay legislation for the lifetime of a parliament, would be introduced. Many government appointments would need to win parliamentary approval.

The Charter of Rights may also include a Right to Privacy Act aiming to protect people against the intrusions of an increasingly authoritarian state. A statutory Press Council – no longer financed by the newspapers – is yet another option being proposed.

Editorial comment, Page 12

Industry is innovative, CBI finds

Financial Times Reporter

THE Confederation of British Industry says today that increasingly fierce competition and demanding customers are spurring UK companies to spend more on market research, training, research and development, test marketing and capital projects in support of innovation.

The confederation's Innovation Trends survey shows that four out of 10 companies questioned said they expected to spend more in those areas during the next 12 months. Only one in 10 said they expected to spend less.

Mr John Banham, CBI director general, said the results "are encouraging confirmation that British business recognises the need to continue to invest in innovation despite the short-term problems caused by high interest rates and pressure on operating margins from Government-imposed costs like higher local rates, water and electricity charges."

However, the survey contains bad news for consultancy and independent commercial research groups. The CBI says that in those areas, and in patenting, companies planning reductions in expenditure come near to equalling those expecting to increase spending.

Fimbra seeks views on new fees

By Eric Short

INDEPENDENT financial advisers and other firms authorised by the Financial Intermediaries, Managers and Brokers Regulatory Association (Fimbra) are being asked by the association for their views on the proposed new fee structure applicable from April.

In particular, they are being asked by Fimbra to consider two alternative bases. One option relates to each firm paying a fixed charge together with a charge for each registered member in the firm; the other is based solely on a charge for each registered person.

Fimbra is a self-regulating organisation, responsible under the regulatory framework of the financial services for independent financial advisers and the smaller investment firms.

It has been experiencing considerable financial difficulty since its formation, and has asked Touche Ross, the accountancy firm, to review its finances.

The review included an examination of the present method of charging fees based on a fixed fee scale for each firm – a basis that penalised smaller firms.

Touche Ross put forward a number of radical alternatives for charging fees from which Fimbra's Council has selected two as being its preferred approach.

The council, under its new commitment to consult its members in advance on all main policy decisions, is seeking their views.

Travel trade hopes for post-holiday bookings

By David Churchill, Leisure Industries Correspondent

BRITAIN'S travel trade is hoping that this week's return to work from the Christmas break will encourage more would-be holidaymakers to start booking their overseas summer holidays.

The new year is traditionally the time for many consumers to book their summer holidays, and tour operators and travel agents had hoped that the long Christmas holidays would persuade people to shop for holidays.

However, in spite of special price-cutting offers by many travel agents in an attempt to stimulate demand, the overall market for package holidays is said to be running 40 per cent below the same time last year.

"It might be that once people are back at work they will be more ready to actually book their holidays instead of just thinking about them," said one travel agency yesterday.

The travel trade blames high interest rates and the general economic uncertainty for the slump in bookings. It also believes that many consumers are putting off deciding to buy a holiday, in the expectation that prices will be lower the later they book.

However, a report published today by Euromonitor, the market research company, suggests that "the boom years of the late 1980s are at an end for the millions of cheap and cheerful holiday charters which once clogged the skies between Britain and the Costas."

It also predicts "hard times for the small independent travel agencies who are already having to cope with some of the slimmest retail margins in any industry."

It says that of travel agents' total income of £653m in 1988, £375m was accounted for by other travel products and services such as insurance commission.

UK Travel and Tourism 1990. Euromonitor. 87-88, Turnmill Street, London, EC1M 5QU. £375.

MoD denies inquiry under way into disclosure of laser gun

By David White, Defence Correspondent

THE MINISTRY of Defence firmly denied yesterday that an inquiry was under way into how a Spanish magazine came to reveal a secret laser gun deployed on Royal Navy warships.

The Government faces questions from Opposition MPs in the Commons tomorrow about the weapon, which is understood to have been deployed by British ships on escort duties in the Gulf to ward off possible attacks from aircraft and patrol boats.

The Ministry refused to give details about the weapon, designed to unsight pilots by directing narrow beams of light at them. Some experts claim that the system could blind at close range.

Several British publications received D Notices, which guide the press on matters involving national security, advising them against mentioning the laser system, but they were withdrawn when the Spanish weekly magazine Tiempo published the story.

The disclosure was based on what appears to have been a security lapse when HMS Coventry, a Type 22 frigate commissioned 15 months ago, entered port during a Nato exercise in the Mediterranean with the gun partly uncovered. British journalists had previously complied with requests not to reveal anything about the laser equipment.

Martin O'Neill: "laser a very poor substitute"

The laser gun, believed to be fitted two to a ship, is distinguished by having a square instead of round cross-section.

It is believed to have been in service on several UK warships for about four years, including the Armilla Patrol in the Gulf, and is regarded as a purely defensive weapon. The MoD's anger over the disclosure is believed to reflect concern that an enemy could easily design protective measures against the dazzling effect of the weapon.

Laser weapons – as distinct from laser guidance and range-finding systems – are highly controversial, with some Nato countries opposed to their deployment. US pilots have complained on several occasions about the effects of Soviet lasers and the two countries have an agreement banning their use in exercises.

As part of its Strategic Defence Initiative programme, the US has been exploring the potential use of lasers for destroying incoming missiles.

British officials claim the navy has never used its laser weapons in action.

Mr Martin O'Neill, Labour's shadow Defence Secretary, said the weapon was "a very poor substitute for the kind of command and control systems which our ships need."

He was referring to the expected three-year time lag before a new electronic command system is ready for the latest Type 23 frigates, co-ordinating their sonars, radars and weapons.

A more sophisticated "close-in" defence system, the US-Dutch Goalkeeper, has been fitted to the most recent batch of Type 22 frigates.

Potato prices rise by 30% in wake of drought

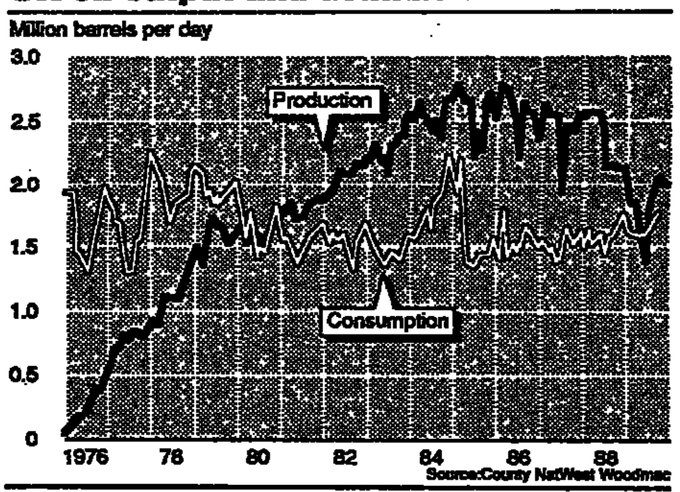
POTATO prices have risen on average by about 30 per cent in the past year, according to the Potato Marketing Board, the Government-financed organisation which controls UK potato production.

It says that prices in England and Wales vary from 8p to 20p a pound at present, compared with a range of between 5p and 16p in January 1989. Supermarkets are charging about 18p a pound against 14p a year ago.

The board blames the price rises on drought conditions last year which cut the UK's potato harvest by about 500,000 tonnes to 6m tonnes.

The average British person consumes about 250 lb of potatoes a year.

UK oil output and demand



Accidents cut 1989 oil output by 25.7%

By Steven Butler

BRITISH oil production was curtailed last year because of a series of accidents and maintenance snags, but drilling continued at a brisk pace with reasonable success, according to a year-end report on the North Sea by County NatWest WoodMac, the securities house.

The year's salient feature undoubtedly the 25.7 per cent decline in oil production, which dipped to an average of 1.83m barrels a day, compared with 2.3m b/d in 1988.

Last June's average production of 1.35m b/d was the lowest for 10 years after a series of system breakdowns coincided with scheduled maintenance operations.

Gas production in 1989 averaged 3.9bn cubic feet (bcf) a day, unchanged from 1988. Norwegian imports averaged 1.0 bcf.

A total of 161 exploration and appraisal wells were completed during the year, indicating a good level of business for offshore contractors. That was below the 166 wells completed in 1988, but it is considered a high level of activity and is not far beneath the record set in 1984 of 168 wells. The level of exploration was boosted by activity close to licence blocks on offer in last year's round of awards.

County NatWest WoodMac calculates a drilling success ratio of 20 per cent for the year, which roughly matches success rates over the past 15 years. That is an indicator of continuing good prospects in the North Sea.

Reserves discovered per well have continued to show a gradual decline, although the large number of wells that remained "tight," with results not reported, make the figures difficult to interpret.

Liquid hydrocarbon discoveries amounted to over 425m barrels, replacing 63 per cent of oil produced during the year. Some 810m barrels were discovered in 1988.

Gas discovered in the year totalled 1,190 bcf, 67 per cent of the volume produced last year.

North Sea asset deals among oil companies totalled £1.7bn in the year. Although that was a high level of activity, it paled beside the record of £4.5bn set in 1988.

Architects fear drop in workloads

By Paul Cheeseright, Property Correspondent

ARCHITECTS for the first time for two years fear a decrease in their workloads.

A survey of a quarter of British practices, carried out by the Royal Institute of British Architects and Camargue Communications, has established that 29 per cent expect less work over the next six months, 18 per cent more work and the rest a stable workload.

Published yesterday, the survey demonstrates the way in which high interest rates have made property developers more cautious.

Concern about a slower flow of commissions for architects covers all property sectors except leisure, where a fast pace of growth is expected to be sustained by rising investment in the UK tourist industry.

The pattern of work expectations varies from region to region. The downturn for the architects is expected to be most severe in the south-east and the south-west of England, where more than 40 per cent of architects are expecting less work.

Architects in other regions, with the exception of Scotland, are more cautious about their prospects. From a low base, the workload of architects in Scotland has been increasing since autumn 1988, and only 13 per cent expect a downturn.

Hosiery industry faces hard times

By Alice Rawsthorn

THE UK HOSIERY industry faces a difficult future of depressed demand and increased competition from other European hosiery companies.

A report from the TMS Partnership, a market research consultancy, says that in the short term there is a "real danger" that the hosiery companies – which make stockings and tights – might be plunged into a price war because of depressed demand. However, the biggest threat confronting the industry is the arrival in the UK of new competitors from Europe and North America.

The hosiery industry – dominated by Pretty Polly, part of the BTR industrial group, and Aristoc, a subsidiary of Courtaulds, the chemical and textile concern – enjoyed a period of buoyant sales in the mid and late 1980s.

The fashion for patterned hosiery, together with the emergence of new forces in retailing, such as Sock Shop, boosted demand for stockings and tights. Women not only bought more hosiery but were prepared to pay more for it.

That period of buoyancy ended last summer when the squeeze on consumer spending, combined with the unusually warm weather and a swing in fashion towards simpler styles, depressed demand for hosiery.

Since summer, the industry has struggled against poor sales and lower prices. There is evidence of fierce price competition at the lower end of the market.

The industry, which has already suffered a "serious setback" according to the report, now runs the risk of tumbling into a "price war."

The European and US hosiery manufacturers are, meanwhile, becoming active in the UK.

Sara Lee, one of the leading US companies in the field, has carried out a series of acquisitions in Europe. Golden Lady, the Italian company which is the biggest single force in European hosiery, recently announced ambitious marketing plans for the UK.

The report predicts that the European hosiery market will become increasingly homogenised during the 1990s.

The UK manufacturers – which tend to concentrate on standardised products for the domestic market – might then be vulnerable to competition from overseas companies with superior design and greater experience in international marketing.

Women's Hosiery in Britain. TMS Partnership, Oxford House, 182 Upper Richmond Road, London SW15 2SH. £500

Labour names Foot successor

MR Llewellyn Smith, Euro-MP for south-east Wales, is to succeed Mr Michael Foot, the former Labour leader, as the party's candidate for the safe seat of Blaenau Gwent.

Mr Smith, 45, beat four other shortlisted candidates in a vote among local party members. Mr Foot, aged 76, who led the party from 1980 to 1983, is retiring at the next election. He has represented the constituency since the death of Aneurin Bevan.

Mansion House expects £21m refurbishment

By Paul Cheeseright, Property Correspondent

MANSION HOUSE, home of the Lord Mayor of the City of London, is likely soon to receive a £21m refurbishment, provided the building is not damaged by work on digging tunnels for the Docklands Light Railway.

The City Corporation is expected shortly to give authority for spending £18.56m, in addition to the £2.36m already spent on preliminary work.

The project means the Lord Mayor will have to move out, but evacuation is necessary anyway because of Docklands Light Railway tunnelling under the home.

The City Corporation is worried about the historic building's stability, fearing the effects of ground movement and subsequent settlement. Refurbishment will not start until experts are satisfied the building will not be damaged.

The Docklands Light Railway is being extended from Tower Hill, on the City's east side, to the Bank, at its centre.

Thames Water chairman shuns industry body

By Richard Evans

THE Water Services Association, which represents the 10 privatised water companies, has received a damaging blow to its standing with the decision by Mr Roy Watts, chairman of Thames Water, the largest of the companies, not to attend its meetings.

Mr Watts said he withdrew from the WSA because his chairmanship of Thames Water plc, the holding company, did not extend to its subsidiary, Thames Water Utilities, which is responsible for the core activities.

The WSA represents only the core activities of the privatised companies, and not operations such as consultancy, engineering and laboratory services, tourism and holiday facilities.

December satellite TV purchases take total to ½m

By Raymond Snoddy

HALF A MILLION homes in Britain have installed satellite television receiving equipment, according to the latest survey of the market.

A surge of installations in December took the number of homes that have either bought or rented satellite dishes to 497,000, according to the FT Satellite Monitor, the monthly survey of the market.

In December, an estimated 110,000 dishes were installed compared with 122,000 in October, the previous best month.

Services already available to those households are Mr Rupert Murdoch's Sky Television and television channels from the Astra satellite.

In November the figure for installations dropped to 35,000, possibly influenced by a heavy promotion by Mr Murdoch's rivals British Satellite Broadcasting, in which Pearson, publishers of the Financial Times, has a substantial stake.

Mr John Clemens, chairman of Continental Research, the company that carries out the survey for the FT, said yesterday: "December confirmed the prediction made by Continental in June, and repeated last month, that by Christmas the number of DTH [direct to the home] installations would reach half a million."

The latest estimate is based on telephone interviews with a sample of 3,055 people aged over 15.

The December sample identified 67 dish-receiving households , of these 52 had 60cm Astra dishes, 12 had large dishes and three had an unidentified type of dish. The finding is extrapolated to the 21.5m homes in Britain and the margin of error is about 35,000 either way.

The overall market for satellite television in Britain – those who have installed a dish, those who say they definitely will and those who probably will – now totals 19 per cent of households, or 4.29m.

There has not, however, been a marked conversion from the "probable" to the "definite" category. The main obstacle, given by 46 per cent of those in the survey, is price.

There has also been a rise from 7 per cent to 20 per cent of those giving "programmes not good enough" as the reason for delay.

Since September there has been an increase from 10 per cent to 21 per cent of those saying they are waiting until both Astra and BSB are operating so they have greater choice.

The Monitor has also revealed a marked difference between social groups in their intention to wait until the launch of BSB.

Among ABC1s, professional and managerial groups, 28 per cent say they want to evaluate the rivals, compared with 15 per cent among the skilled and semi-skilled workers.

Apart from DTH installations, satellite channels such as Sky, Screen Sport, MTV and Children's Channel are available on cable networks throughout the UK and Ireland.

As a result, new television channels are available in more than 1m homes in the two countries.

In satellite dish and cable homes the new channels collectively have been taking 34 per cent of viewing time, just ahead of ITV (33 per cent), BBC 1 & 2 (30 per cent combined) and Channel 4 (4 per cent.)

UK NEWS

BSB shareholders agree to extra £1bn financing

By Raymond Snoddy

THE MAIN shareholders in British Satellite Broadcasting have reached agreement in principle to push a further sum approaching £1bn behind the satellite television venture.

The decision to give the venture such large backing in addition to the £425m already committed reflects the growing confidence among major shareholders in the project and a desire to provide for every eventuality for at least the next four years.

BSB, which plans to launch five new television channels in opposition to Mr Rupert Murdoch's four on Sky Television, is also close to an announcement on the launch of its programme service.

Test programme transmissions will begin in March with the first week in April regarded as favourite for a phased introduction of the five channel service. Five separate launches are planned – one for each channel with an interval between.

The extra backing is in the form of guarantees of future equity, underwriting of interest held by Mr Alan Bond, the financially-troubled Australian entrepreneur, in the venture and loan facilities from banks.

It has yet to be agreed by the boards of the main four shareholders.

The shareholders effectively planning to carry the venture forward are Granada, the television, leisure and computer services group, Pearson, the publishing, banking and industrial group and parent company of the Financial Times, Reed International, the publishing and information group and Chargeurs, the French transportation company.

BSB declined to comment in detail yesterday except to say that it expected to clarify the future of the consortium within the next two weeks.

It is believed that the partners are talking about putting up equity guarantees in the region of £400m. Mr Bond's position will be underwritten, although he is now actively trying to sell his stake in BSB with Mr Robert Maxwell, publisher of Mirror Group Newspapers, as one of the main suitors.

Mr Bond's commitments to BSB total £154m. In addition, bank loan facilities of about £400m are included in the package.

The banks involved are understood to have hired US consultants, Arthur D. Little, to take an independent look at BSB. It is claimed that the satellite venture was given a clean bill of health on its technology, programme and business plans.

If the present package is formally completed, it will mean that Mr Murdoch – who is losing £2m a week on Sky Television – will face a properly financed and potentially powerful rival within little more than three months. The financing deal must first be approved by the Independent Broadcasting Authority, however.

BSB originally intended to launch last autumn but was forced to postpone because of difficulties with essential microelectronics.

Mr Murdoch launched in February and, according to the latest FT Monitor of the satellite television market, by the end of December 497,000 British homes had installed satellite television receiving equipment. The new channels are also available on cable television networks.

The BSB channels range from subscription films to sport, live events and documentaries, general entertainment plus a youth channel.

Government denies plans for pay offer in ambulance row

By Philip Stephens and John Gapper

THE Government denied yesterday that it plans to table a new offer to break the deadlock in the ambulance dispute, but it left open the possibility of such a move if trade unions dropped their central demand for a new long-term pay formula.

National negotiators of the five unions representing ambulance crews are expected to meet today to discuss their response, but it is thought unlikely that they will drop their call for a new formula as well as an improved pay offer.

Mr Kenneth Clarke, the Health Secretary, dismissed reports in some Sunday newspapers which had suggested that he was preparing to increase the offer of 9 per cent over 18 months, which has been rejected by the unions.

There was uncertainty among union officials over whether Mr Clarke's remarks amounted to a change in the negotiating position of National Health Service managers, who have so far offered only minor extra payments in addition to 9 per cent.

Ms Donna Covey, a national officer of the GMB general union, said the unions had already indicated their willingness to negotiate on their 11.1 per cent pay claim. But she said a new pay formula was a central plank of their demands.

"We have been quite clear that we want a form of long-term pay mechanism, otherwise this sort of dispute could crop up every year," she said. No formal response was issued by Mr Roger Poole, the chief union negotiator.

Extra payments of £500 for 2,000 staff with paramedical skills have been offered and this offer was extended to a further 2,000 partially-trained staff in talks with the breakaway Association of Professional Ambulance Personnel.

The unions say that they would be willing to negotiate further flexibilities in the pay structure of the type outlined by Mr Clarke, provided they were accompanied by an increase in the basic pay offer.

Mr Clarke denied yesterday that he was at odds with Mr Kenneth Baker, Conservative Party chairman, over his handling of the dispute, or that disquiet among Conservative MPs about the impact on the Government would force him to back down.

In an interview on BBC Radio, he said he had been trying to draw attention to a letter to Mr Poole from Mr Duncan Nichol, NHS chief executive, saying that the union position would have to change "substantially" for further talks to be useful.

Steel union discusses end to national pay talks

By Lisa Wood, Labour Staff

TALKS have started between British Steel and the Iron and Steel Trades Confederation, the principal steel union representing production workers, to end national pay bargaining.

The discussions mark a reversal of a decision by the ISTC executive last year to reject such a proposal when it was first formally presented by British Steel. The leadership changed its stance after extensive branch discussions.

National bargaining would stop as from April if agreement is reached.

British Steel has four business divisions – strip products, general steel, stainless and tubular – and it wants bargaining about pay, hours of work and sickness to be devolved to them. Pensions would still be dealt with by a single national body.

Any new bargaining structure for British Steel's 52,000 employees would be watched by other employers keen to stop national bargaining.

Last year, British Rail failed to carry through similar plans in the face of strikes. Its proposals were fiercely opposed by rail unions and it has postponed a deadline of this month for a new bargaining structure. The ISTC talks are an unusual example of a union agreeing to similar changes in principle.

Mr Keith Brookman, assistant general secretary of the ISTC, said: "The general consensus from the membership was that they wanted to hold discussions with British Steel to explore the possibilities. An understanding has been reached by the executive council that discussions will be held with British Steel to reach an accord on 'business bargaining'."

Following the 1980 steel strike, British Steel introduced plant-level bonuses to supplement national pay levels.

Sir Robert Scholey, British Steel's chairman, has said he now wants more flexible pay bargaining arrangements.

The company's management is hoping for agreement on a new structure before April, when the current two-year pay deal expires. It believes that devolvement of pay bargaining would be a logical extension of plant-level bonuses.

Talks on devolved bargaining are also being held between British Steel and the National Craftsmens' Co-ordinating Committee which represents craft workers at British Steel.

Information technologies cramped by lack of staff

By Alan Cane

SERIOUS shortages of experienced people and high staff turnover are handicapping the development of the information technology industry to the point of crisis, a survey of 112 Midlands-based companies suggest.

It reveals that the data processing departments of more than one in three organisations are currently under strength in terms of staffing.

Managers complain that it is difficult to find or retain staff with the right qualifications.

More than one-fifth of the companies interviewed had a staff turnover in excess of 25 per cent compared with about half that number five years ago.

The success rate in filling vacant posts was only about 70 per cent with contract staff used to make up the shortfall.

The survey, which was carried out by the Birmingham branch of Peat Marwick McLintock, the management consultancy, suggests that employers will have to take steps to improve employee benefits.

It also proposes targeting more groups such as older workers and women returning to work.

Half the employers canvassed in the survey said they were prepared to consider older people but few actually do. Fifteen per cent of companies said that they were not even prepared to consider the possibility.

Women returning to work were given no special consideration by 86 per cent of the companies surveys.

Bonus payments, on the other hand, are now made to 55 per cent of staff, of which only about 10 per cent are performance related.

Men 'hold top Ulster retail posts'

By Fiona Thompson, Labour Staff

AN EMPLOYMENT study in Northern Ireland's retailing industry has revealed a significant imbalance between the sexes, with men concentrated in managerial and professional posts and women in selling.

The analysis, by the Equal Opportunities Commission for Northern Ireland, found that explanations given by male retail managers rested on traditional assumptions as to the role and capabilities of women.

The qualities of a "good" manager – aggressiveness, ambition, drive and competitiveness – were seen to be more suited to men.

The study found that a managerial career in retailing was not an option for the vast majority of women. Women were focused in a narrow range of selling jobs and had less access to training.

A dual career structure existed. Managers interviewed confirmed that there was very little movement from the shop floor jobs (mainly female) to the managerial positions (mainly male).

The study found retail work to be one of the lowest-paid sectors in Northern Ireland's industry, with the average gross weekly wage for female workers at £91.39.

It also revealed differences in employment conditions of full-time and part-time women employees.

Part-timers were less likely to have itemised pay statements, to be covered by a company sick or pension scheme, to receive pay for unsocial hours or commission and bonus payments. They also had fewer holidays.

Some 45 to 48 per cent of all women employed in the retail trade in Northern Ireland work part-time.

Trade unions were, for the most part, of little relevance or protection to most of the women interviewed. Seventy-three per cent of those interviewed were not union members.

The study concludes that strategies must be developed for equal opportunities in Northern Ireland retailing.

**What price women? A study of women's employment in the retail trade in Northern Ireland. Equal Opportunities Commission, 22 Great Victoria Street, Belfast BT2 2BA.*

DIARY DATES

Trade fairs and exhibitions: UK

Current
London International Boat Show (0932 854511) (until January 14)
Earls Court
International Lightshow Exhibition (0588 4658) (until January 10)
Olympia

January 10-13
Supercomputing Exhibition and Conference - SUPERCOMPUTING EUROPE (01-948 5166)
Olympia

January 12-14
British Horse and Rider Show (01-834 1717)
Wembley Centre

January 13-18
International Toy Fair (01-226 6653)
Harrogate

January 18-21
Antiques Fair (04447 2514)
Kensington Town Hall

January 22-27
International Hotel and Catering Exhibition - HOTELYMPIA (01 948 9900)
Olympia

January 23-25
Enterprise Exhibition (01-642 7688)
Barbican, London

January 27-31
British International Toy and Hobby Fair (01-701 7127)
Earls Court

January 30-February 1
Construction Industry Computer Exhibition (01-251 5885)
Barbican

February 4-8
International Spring fair (01-855 9201)
NEC, Birmingham

February 7-9
Undersea Defence Technology Conference and Exhibition (0892 44027)
Novotel, London

February 7-11
Scottish Boat, Caravan, Camping and Leisure Show (041-221 1769)
Exhb and Conf Centre, Glasgow

February 13-15
Corporate Computer Security '90 International Exhibition and Conference (0733 60535)
Novotel, Hammersmith

February 14-16
The Property Business + Enterprise 3 (01-834 1717)
Barbican, London

February 20-22
London Food Exhibition (01-486 1951)
Wembley Centre

Overseas exhibitions

January 8-11
International Hotel, Restaurant and Catering Industries Trade Fair - HORECAVA (01-495 7977)
Amsterdam

January 10-13
International Home and Household Textiles Trade Fair - HEIMTEXTIL (01-734 0543)
Frankfurt

January 13-15
International Fairground and Leisure Park Equipment Trade Fair - INTERSCHAU (01-236 0911)
Stuttgart

January 12-17
Carpets, Rugs, Decorative Goods and Home Accessories Exhibition; Jewellery, Gold and Silverware, Clocks, Watches and Gifts Exhibition; and 25th International Lighting Exhibition - LUMINAIRE (01-225 5566)
Paris

January 26-27
19th International European Coin Convention Fair (061) 686 20 20
Basle

February 8-14
International Toy and Hobby Fair (01-930 7251)
Nuremberg

February 9-18
International Boat Show (01-486 1951)
Helsinki

Business and management conferences

January 9
The Institute of Economic Affairs: The state of the economy (01-799 3745)
QE2 Conf Centre, London

January 10
Textile Institute: Textile interiors - a challenge to innovation (061 834 8457)
Heimtextil Exhibition, Frankfurt

January 11
HS Conf: The audit secretary today (01-935 2382)
Cafe Royal, London

January 16-17
Spectra: Electronic marketing 1990 in retailing and finance (0734 320177)
Regent Crest Hotel, London

January 17
Gouldens: Cross border mergers and acquisitions seminar (01-583 7777)
Mayfair Inter-Continental Hotel

January 22
Profex: UK property insolvency conference (01-950 0400)
The London Marriott Hotel

January 22-23
Financial Times: Creating a Euro-workforce in the 90s (01-925 2323)
Hotel Inter-Continental, London
IBC: Global emerging stock markets (01-637 4383)
Portman Inter-Continental Hotel, London

January 23
Joint CB/British Gas Conf: Tunisia - Future prospects for the UK (01-379 7400)
CBI Centre Point, London

January 25
Hawksmere: 1992 - Opportunities and pitfalls for European insurance (01-824 8257)
Brussels

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

FINANCIAL

TODAY
COMPANY MEETINGS-
ASDA, Westbank, Leeds, 10.30
Diploma, Great Eastern Hotel, E.C., 11.00
Hardanger Properties, Claridges, Brook Street, W., 12.00
BOARD MEETINGS-
Finals;
Treatt
Wheway
Interims;
Carclo Engineering
Cooper Clarke
Ellis & Everard
Flextech
Neepsend
Olim Convertible Trust
Vardy (Reg)
DIVIDEND & INTEREST PAYMENTS-
Amersham International 3.7p
Birmingham Mint 0.5p
Bradford & Bingley Building Society, Fltg Rate Nts 1996 £389.52
Clydesdale Inv. Tst. 2.8p
Coloroll 3.04p
Cradley Group 1p
DRG 6p
Diploma 6.25p
Ensign Tst. 1p
Friendly Hotels 1.35p
Grampian Television N.V "A" 0.7p
Green (John) 3p
Guardian Royal Exchange 4p
Highland Electronics 2.3p
Inter-American Development Bank 12½% Ln 2003 6¼pc
Owen & Robinson 0.15p
Premark International 21cts
Scottish Metropolitan Property 3.75p
Stocklake 7.5p
TR Property Inv. Tst. 0.6p
Unigate 5.7p
Warner Howard 1.56p
TOMORROW
COMPANY MEETINGS-
AMI Healthcare, Royal Society of Medicine, Wimpole Street, W., 11.00
Sanderson Electronics, Grosvenor House Hotel, Sheffield, 12.00
BOARD MEETINGS-
Finals;
Countryside Properties
Hawtin
Kunick
Interims;
Anglian Water
Bucknall Austin
Howden Group
Parkfield
Welsh Water
DIVIDEND & INTEREST PAYMENTS-
Bailey (Ben) Construction 2.8p
Heath (C.E.) 7.5p
M.M.T. Computing 1.65p
Powerscreen International 1.45p
RBC International Bond Fund 9cts
Sketchley 6.5p
Trevian Holdings 1.45p
Waddington (John) 3.6p
WEDNESDAY JANUARY 10
BOARD MEETINGS-
Finals;
Alexander Holdings
Economic Forestry
M & G Dual Trust
Southern Business
Torex Hire
VPI
Interims;
Banks (Sidney.C)
Bespak
Cowan De Groot
Fairbriar
First Technology
Hambro Eurobond & Money Markets
Markheath Securities
North West Water
Wessex Water
Wyko
DIVIDEND & INTEREST PAYMENTS-
Halifax Building Society, Fltg Rate Nts 1992 £190.62
Henderson Administration 10p
Isopad International 1.65p
Metro Radio 2.5p
Morris (Phillip) 34.375cts
Nationwide Building Society, Fltg Rate Nts 1995 £190.62
Ramus Holdings 5p
THURSDAY JANUARY 11
COMPANY MEETINGS-
Carr's Milling Industries, Crest Hotel, Kingston, Carlisle, 11.30
McLeod Russel, The New Connaught Rooms, W., 11.30
Pegasus, The Great Eastern Hotel, E.C., 2.30
Royal Bank of Scotland, Caledonian Hotel, Edinburgh, 12.00
BOARD MEETINGS-
Finals;
Daily Mail & General Trust
Dewhurst
TSB
Interims;
Investment Co.
Jones Stroud
Multitone Electronics
Nobo
Northumbrian Water
South West Water
Southern Water
Zetters
DIVIDEND & INTEREST PAYMENTS-
Amber Industrial 4.4p
Bibby (J.) 5.75p
Brown (N.) 1.575p
Great Portland Estates 3p
Highland Distilleries 2.9p
Marine Midland Fin NV $23.8
Ramar Textiles 1.75p
Saunders & Sidney 2.3p
Sanderson Electronics 5.4p
Scantronic 0.715p
Stainless Metalcraft 3p
Tams (John) 1.38p
FRIDAY JANUARY 12
BOARD MEETINGS-
Interims;
Property Trust
Security Archives
DIVIDEND & INTEREST PAYMENTS-
AMI Healthcare 4p
Aquascutum 1p
Do. "A" (Rest.Vtg) 1p
Bradford & Bingley Building Society, Fltg Rate Nts 1999 £383.07
British Airways 2.8p
Castings 2.2p
Craig & Rose 2p
Cropper (James) 0.88p
De La Rue 3.25p
Early's of Witney 8% Prf 2.1p
First Iberian Fund 20.1cts
Foster (John) 1.75p
Imperial Cold Storage & Supply 30cts
LEP 1.75p
Mid-Sussex Water 4.9% Max Addl Ord 2.45p
National Home Loans 4.74p
Parkland Textile 2.2p
Do. NV "A" 2.2p
Ritz Design 1.33p
Sainsbury (J.) 1.75p

PARLIAMENTARY

Today

Commons: Second readings of Pensions (Miscellaneous Provisions) Bill and Government Trading Bill.

Tomorrow

Commons: Enterprise and New Towns (Scotland) Bill, second reading.

Wednesday

Commons: Aviation and Maritime Security Bill, second reading.

Motion on the Co-operative Development Agency (Winding Up and Dissolution) Order.

Select committees: Energy: subject, fast breeder reactors. Witness: CEGB. (Room 8, 11 a.m.)

Home Affairs: subject, Criminal Injuries Compensation Board. Witnesses: Home Office and Scottish Office officials. (Room 16, 4.15 p.m.)

Social Services: subject, Abortion Act 1967 "conscience" clause. Witnesses: Department of Health officials. (Room 6, 4.15 p.m.)

Committee on a Private Bill: King's Cross Railway Bill. (Grand Committee Room, Westminster Hall, 10.30 a.m.)

Thursday

Commons: Opposition debate. Committee on private bill: King's Cross Railway Bill. (Grand Committee Room, Westminster Hall, 10.30 a.m.)

Friday

Commons: Debate on the Multi Fibre Arrangement.

Changes at Glynwed

Mr Alex Miller has been appointed a director of GLYNWED INTERNATIONAL, and will become chief executive of Glynwed Metal Services, one of the five operating divisions. He was deputy managing director of Amari until its acquisition by Glynwed in 1988. Since then he has been responsible for Aalco, metals distribution, part of his new division. Mr Jon Pither, chief executive of the group's metal services division, becomes chief executive of the tubes and fittings division in succession to Mr Derrick Richardson who continues as chief executive of the plastics division.

■ Mr Peter Davis has been appointed chairman of PARK ROYAL ENTERPRISE TRUST following the resignation of Mr Ansel Harris.

■ Mr Bill de Lucy has joined TARGET INTERNATIONAL MANAGEMENT as international sales director. He was with Gartmore.

■ Mr Barry Foreman and Mr Angus Hamilton have been appointed main board directors of GROSVENOR SQUARE PROPERTIES GROUP. Mr Jeremy Collins, Mr John Moody and Mr Jeffrey Rosen have been appointed directors of principal operating subsidiary Grosvenor Square Properties Developments; Mr Maurice Fisher, Mr Martin O'Hara, Ms Georgina Stewart and Mr Howard Waters become divisional directors; and Mr John Sherwood, a director, has been appointed head of the business space team.

Mr Mike Smith *(above)* has been appointed managing director of GRAND METROPOLITAN RETAILING, which operates over 2000 pubs and restaurants, primarily in Britain and West Germany. He was managing director of William Hill, another group company.

■ Lord Rockley, a vice chairman of Kleinwort Benson Group, has been appointed a non-executive director of the FR GROUP.

■ Dr George Quigley, chairman of Ulster Bank, part of NATIONAL WESTMINSTER GROUP, has been appointed to the main NatWest board. He is a director of Short Brothers, and a member of the Fair Employment Commission.

■ SPILLERS MILLING, part of the Dalgety group, has appointed Mr Andrew Creese as chief executive. He was chief executive, Bakers Flour Group.

■ Mr Ashley Errington, former agency director of Schroder Life (now NM), has joined the board of GREIG MIDDLETON FINANCIAL SERVICES. His main role will be to develop a national financial services network for the group.

■ MEES & HOPE CORPORATE FINANCE has appointed Mr R.W.J. Ford to the board. He was general manager of the London branch of Bank Mees & Hope where Mr J.F.C. Blankvoort succeeds him.

■ Miss Karen L. Baldwin and Mr Jonathan H. Points have been appointed directors of GENESIS INVESTMENT MANAGEMENT, which covers investments in emerging markets and Japan. Miss Baldwin was a senior investment manager at Touche Remnant Investment Management, specialising in Japan; and Mr Points was an investment manager at the Kuwait Investment Office in London.

Morgan Grenfell subsidiary posts

MORGAN GRENFELL has appointed Mr Colin Brown *(left)* and Mr Andy Macfie *(right)* to the board of Morgan Grenfell Development Capital. Mr Brown joins from Charterhouse Bank, corporate finance division; Mr Macfie, who will have special responsibility for investing in Scotland, was an assistant director with Charterhouse Development Capital.

■ ENSOR HOLDINGS has appointed Mr John K. Barnes as a non-executive director, replacing Mr Thomas Fisher who has retired. Mr Barnes was a partner with Robson Rhodes.

■ FRIENDS' PROVIDENT LIFE OFFICE has appointed Mr Mike Barnett as assistant general manager, pensions. He was group pensions manager. Mr Brian Cowley has been appointed group PHI manager, health insurance department. He was assistant client servising manager manager, Equity & Law.

■ Mr Ron Calver, general manager (UK life operations), and Mr Albert Mills, general manager (UK general business), have been appointed executive directors of the principal companies of the NORWICH UNION GROUP.

■ THE BECKENHAM GROUP, which has merged with Bardsey, has appointed two Bardsey directors to its board. Mr Harry Westropp becomes managing director of Beckenham, and Mr Michael Pearson, Bardsey's largest shareholder, becomes a non-executive director.

■ Mr Frank McHugh has been appointed finance director of BARRY D. TRENTHAM, West Lothian. He was company secretary.

CONTRACTS

Tarmac wins £5m orders

TARMAC CONSTRUCTION has won orders worth over £5m. Largest is a £1.9m contract for offices for Cresta Properties, to be completed next summer. Other office projects, both worth about £1.1m, are in Blythswood Square, Glasgow, involving construction of offices behind an existing facade for Sheraton Caltrust (Blythswood), and at Leyland, Lancashire, where offices are being refurbished for Leyland Daf. Tarmac has a £153,000 contract for repairing sections of British Waterways Shortwood canal tunnel, near Alvechurch, on the Birmingham and Worcester Canal. Involving sprayed fibre reinforced concrete and other repairs to the 562 metre long tunnel, the repair team has to travel to and from the site, and work, from a boat.

Pontypool jobs for Conder

CONDER STRUCTURES has been awarded two contracts by Torfaen Borough Council in Pontypool. A six-storey office block will be constructed around the town hall to provide 52,830 sq ft accommodation for all the borough's administration departments, under an order worth £838,400. A four-storey car park is being built at a cost of £492,700 to provide space for 380 cars. Three floors are for staff at the civic centre, with the upper floor for the public.

* * *

Three metal-roofing contracts, together worth about £1.5m, have been won by BRITANNIA ROOFING SERVICES, part of the Bedford-based SDC group. A listed first world war hangar at the former RAF Duxford, Cambs, now part of the Imperial War Museum, is to have its galvanised steel roof replaced with curved colour-coated aluminium panels (£250,000). Part of the new Royal Life headquarters in Peterborough will have a 212 metre radius curved roof (£600,000); and three office/factory units for 3i Commercial Properties at Rooksley, Milton Keynes, will be roofed for £575,000.

MANAGEMENT

Automotive components

T & N: optimism in the driving seat

Despite a projected downturn in the world motor industry, the UK group sees potential for independent specialist producers. John Griffiths reports

Colin Hope, still getting comfortable in a seat vacated last month by Sir Francis Tombs, is living up to his name.

"It is important that T & N is at last getting over the message that it is a professional components group, not a troubled materials concern automatically linked in the public mind with asbestos," says its chairman, formerly group managing director.

But that the public is still making the link was brought home as recently as September, when T & N's shares lost 9 per cent of their value as a result of more asbestos residue being found clinging to its interim results.

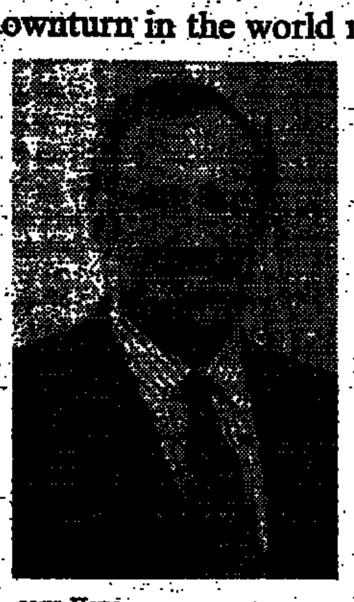
They disclosed an unexpected further provision of £9m against any future health damage claims, on top of other asbestos-related provisions of £5.7m.

However, Hope could take some comfort from the fact that time and the latest financial provision are gradually reducing the prospect of more nasty surprises; and that the continuing asbestos fall-out is probably acting as a "poison pill" to deter predators.

Of more positive concern to the 57-year-old Hope, a former Dunlop executive who joined T & N in 1985, is that most analysts acknowledge it to be making good progress towards fitting Hope's description of it as a "professional" components group.

Even after the latest provision, T & N made a pre-tax profit of £40.2m in the first half. This was down slightly on the previous interim's £43.1m. But operating profit was up by 22 per cent and T & N is expected to make an unchanged £90m for the full year on a turnover of not much more than £1bn.

Hope stresses that his assumption of the chairmanship from Sir Francis does not mean any marked changes of direction. He professes to have had "great sympathy of views" with Tombs about the company's direction, and Tombs had in any case been easing himself out for some time. "We had almost got to the stage where we didn't have to talk," says Hope.



Colin Hope: "Part of our strategy is to have a narrow range of difficult technological products in which competition is necessarily limited and becoming more so. Even GM's only got two or three piston designers, for example — we've got about 50"

He claims to have achieved a strong management by evolution over the past five years, a team developed from what Hope terms the best of the "old" T & N, AE, which it bought four years ago, and "one or two people from outside". There have been no purges "but we've quietly changed quite a few managing directors each year."

The structure now is highly decentralised, with individual MDs being given much freedom, but within a firmly-defined strategic framework and with tough financial targets. "MDs coming into the company have almost not been able to believe their freedom," claims Hope. "We've almost had to force them to explore it."

Hope maintains that he is confident that even if a long-expected downturn materialises in the motor sector, on which T & N is currently dependent for 65 per cent of its revenues, efficiency improvements and increased sales penetration in the sector will more than compensate.

The squeeze on disposable incomes brought about by high interest rates in the UK has already led to aftermarket sales in the motor sector being "very slow" this year. Minor production cutbacks by vehicle makers in the UK and, more worryingly, of 18-20 per cent on the previous year in North America, are starting to dampen demand for original equipment supplies, says Hope.

However, while T & N itself is trimming production in the expectation that total demand will drop next year, Hope maintains that its business with continental vehicle makers remains buoyant and is taking the view that any downturn will turn out to be "only a blip". Italy and France, he insists, remain "incredibly buoyant."

Indeed, even in the US, Hope stresses that there are activities in which T & N is "adding capacity as fast as we can go." At its pistons plant in South Bend, Indiana, current output is 80,000 pistons a week, requiring 24-hour working. Third and fourth production lines are being installed to take output to 130,000 a week. "It's the US vehicle manufacturers' schedules which are being cut, not ours," insists Hope — although for how long this can be sustained in the face of the US car industry's worsening problems is difficult to evaluate.

Hope's own view is that the potential for T & N in the US is "enormous". His argument is that major producers like GM and Ford are still producing large quantities of their components in-house, but that there is potential in the trend towards sourcing from those external companies which possess the skills and resources to develop as well as make components.

Producers of other major components, such as Eaton Corporation (truck transmissions) and Cummins (engines), argue with considerable success that by specialising in a narrow range of products which they can sell to a wide variety of truck makers, they can bring more resources to bear on the development of a specific engine or gearbox than even the largest individual truck maker.

Hope argues that it is the same in T & N component areas: "Part of our strategy is to have a narrow range of difficult technological products in which competition is necessarily limited and becoming more so. Even GM's only got two or three piston designers, for example — we've got about 50."

He claims there is probably a 2:1 cost advantage in T&N's favour compared with GM in producing pistons — and insists that T & N has a good chance of picking up extra business against the indigenous independents of North America. "I don't want to be arrogant, but there's some pretty dead competition in the US. We've got a much bigger available market than is so far apparent in terms of volume growth."

To illustrate his point, Hope points out that T & N has already set up a valve spring plant at Jackson, near Detroit, which is operating on 100 per cent single-source contracts of four-to-five year runs.

Not surprisingly, T & N is trying to target Japanese car plants in the US as well, since in the current new car market downturn in the US it is domestic producers which are suffering, not the Japanese.

The heavy emphasis placed on the US is understandable given both growth prospects and the relatively small share of T & N's turnover — 10 per cent — for which it accounts.

Currently, 50 per cent of all T & N output is in the UK, with continental Europe accounting for 30 per cent and the rest of the world, 10 per cent. However, more than half of UK output is exported — a situation which Hope does not envisage to be sustainable.

"It seems to me vital that as a group dedicated to being a global supplier, we've got to be constantly sure we're not being British biased. We must put adequate [manufacturing] investment into countries where we are making sales. We can't be a long-term exporter to the US, for example — although we can use UK plants to top up."

Geographically, T & N's strategic goal is to locate 30 per cent of production in each of the US, UK and continental Europe, with the remainder spread around the rest of the world.

"We're working towards it but moving pragmatically, in line with opportunities. For example, we've acquired a lot of small businesses in the US. That we have still not grown through acquisitions there as fast as we would have liked is mainly a reflection of the silly money being asked for companies."

Hope admits to feeling "marginally smug" about T & N's financial situation. Its debt-to-equity ratio was 34 per cent at the half-year "but it will be a lot lower, maybe in the 20s by the year-end, yet we are continuing high investment levels." Group capital expenditure this year is running at £80m, after £60m last year and £40m in 1987.

For T & N, like many UK component groups, the early-1980s obsession to shift as much output as possible from the UK as its motor industry continued what seemed like terminal decline, is over. "Now we think the UK is, and will remain, a good manufacturing base," says Hope, in anticipation of Toyota and Honda joining Nissan in full-scale car production in the UK. "There are tremendous opportunities from Toyota and Honda — we are already doing several components for Nissan in the UK and we've got long-standing links with Honda in Japan."

Hope's belief that only a limited number of sophisticated suppliers is likely to meet the projected quality standards and "local" production requirements of vehicle makers — T & N is also adding capacity in Italy and France — and in turn will benefit from more lucrative and long-term supply contracts, implies some reduction in competition as a result of less efficient companies falling by the wayside.

By the same token, he envisages that it would be difficult for Japanese component suppliers to come into Europe and effectively meet this leaner, fitter indigenous industry head-on (despite the fact that Japanese component companies have already effectively cornered independent production of radiators in the UK, for example). However, he concedes that it is likely that "there will be joint ventures. There is growing respect between the Brits and Japanese — they're much more relaxed about working together than they used to be."

Indeed, T & N already has such a joint venture in the US, making friction products with Japan Brake Industries near Nissan's plant in Tennessee.

Overall, says Hope, T & N's long-term strategy is to be a materials technology company, designing and manufacturing goods for key market sectors.

"Seven years ago we were 80 per cent building materials. Our vision is to be 50 per cent automotive, 50 per cent engineering and industrial."

The currently 65 per cent automotive turnover is the product of the structural upheavals going on in the motor industry itself which have created opportunities T & N was keen not to pass up.

The group intends to stay in the business areas it already has — friction materials, pistons, bearings, valve trains, camshafts and similar components. Indeed, there are opportunities for expansion here which belie the numbers of actual engines being sold. The switch to four valves per cylinder from two — with 5-valve engines on the way — and to twin and even four camshafts as engines become more efficient and powerful, is creating substantial extra business per engine.

It is intended that achieving a 50-50 balance between automotive and general engineering/industrial activities will come from expanding the latter, partially out of the synergies which T & N sees existing between all three areas. "Despite all the scepticism about synergy at the time of the Rover/British Aerospace deal, there are a whole range of synergistic developments, particularly in areas like composites and ceramics."

Growth by acquisition, clearly, is also on the cards. Hope says there is only scope for "synergistic" ones — but not necessarily minor ones. "There are still quite a number of businesses of the size of AE (taken over four years ago at a cost of £270m) which could be a very good fit. We'd be particularly interested in anything like that in the US."

Eng&industrial(1988)

	£m
Turnover	328
Operating profit	37.8
	%
Retn on cap emp	22.5
Retn on sales	11.5

Cons mats&mining(1988)

	£m
Turnover	66
Operating profit	7.5
	%
Retn on cap emp	17.1
Retn on sales	11.4

Auto componts(1988)

	£m
Turnover	643
Operating profit	66.1
Retn on cap emp	21.5
Retn on sales	10.3

T & N's FIVE-YEAR RECORD(£m)

	1988	1987	1986	1985	1984
Turnover	1,049	961	541	535	520
Operating profit	114	101	50	49	50
Retn avge cap employed%	24	22	14	17	16
Opg profit to t/over%	11	10	9	9	8

Management abstracts

Why automating isn't enough. *R G Ernst in The Journal of Business Strategy (US), May/June 89 (4 pages)*

Argues that production automation alone can only achieve marginal savings, but when allied to improvements in business processes (such as work flow, material flow, work processes and organisation) far more significant savings can result.

Describes how problem areas can be uncovered/solved and continuous product flow achieved through the use of a product/information flow diagram; examines technical and human factors that require consideration.

Assessing company strength using added value. *J Bryant in Long Range Planning (UK), Jun 89 (11 pages).*

Advocates using added value analysis as a means of assessing company strength and reports a survey of the value-added performances of major UK companies.

Examines the relationship between added value and factors such as productivity, capital investment and profit strategy.

Suggests something called the K-Factor as an indicator of performance in adding value and calculates this K Factor for 100 companies. Amstrad gets the highest score. Shows how added value analysis can contribute to strategy formulation, eg in considering competing capital investment projects.

A board needs a ringmaster. *LM Fuled in Directors & Boards (US), Winter 89 (3 pages)*

Stresses the importance of information in the conduct of an organisation's affairs, and suggests that the board's needs cannot be adequately met by the formal channels.

Reports the practices of a former chairman/CEO of Du Pont who believed in the value of "corridor knowledge" (IBWA — information by walking about) and feels that companies need "ringmasters" to direct information to the decision-makers. Points to some good information sources and has a recipe for the treatment of gossip and rumour.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £5 each (including VAT and p+p; cash with order) from Anbar, 62 Toller Lane, Bradford, West Yorkshire BD8 9BY.

LEGAL COLUMN

Lawyers weigh up the other German question

By Robert Rice, Legal Correspondent

THE ANNOUNCEMENT by Clifford Chance, the UK's largest law firm, that it will shortly open an office in Frankfurt in conjunction with one of West Germany's leading commercial law practices – Gleiss, Lutz, Hootz, Hirsch & Partners – has highlighted a dilemma that a number of the UK's leading commercial law firms have been wrestling with recently.

Put simply, their question is this: should they or shouldn't they open an office in one of the Federal Republic's main commercial centres?

On the surface, no difficulty ought to exist. West Germany is Europe's largest economy; cross-border merger activity is on the increase; and the reintegration of the economies of East and West Germany can only increase the latter's economic power.

East Germany is particularly well placed to gain economic advantages from the reforms within Comecon countries. Alone of them, East Germany has virtually free access to the EC for its exports. It is well placed geographically and, because of its unique status, recognised by the 1957 German Treaty of Accession to the EC, its entry to the EC may soon become a feasible prospect, particularly if Czechoslovakia's proposals for the winding up of Comecon are accepted.

The country also has a relatively low burden of external debt. Crucially, though, it has close links with West Germany on linguistic, cultural and financial levels. Many West German companies still have claims to plants in the East Germany and the Bundesbank grants the East an automatic interest-free overdraft of up to DM 850m.

West German economists predict that the short-term effect of reintegration will be an increase in growth of West Germany's economy. They also predict that as savings in the Western economies have to finance investment in Comecon countries, the flow of German savings previously channelled towards low-cost, high-interest-rate countries within the EC may now move east. As Eastern economies grow, so those of West Europe may slow down relatively.

All of that serves to illustrate the increasing importance of the German economy. So where is the quandary? Surely the potential for high-quality commercial work within Germany is such that any law firm with aspirations to a truly international practice cannot afford not to have an office there.

The quandary arises from the restrictive nature of the rules governing the practice of law in West Germany which make it very difficult for domestic lawyers, let alone foreign lawyers, to practise the type of law they want to, where they want to, and in the way they want to.

Although the Federal Constitutional Court ruled in 1987 that the rules of professional conduct were unconstitutional, German lawyers are still effectively bound by the requirement to practise in a single locality and to be admitted to practise only before one court. Those rules have until recently deterred mergers between German law firms and prevented the development of national practices.

Foreign EC lawyers can only advise on EC law and their own national law. They cannot advise on German law, even indirectly, unless qualified as German lawyers. But they could if they liked establish offices all over Germany, exercising their rights under EC rules on freedom of establishment.

That led UK solicitors McKenna & Co, which has been researching the way practice rules are changing across Europe generally, to conclude that English solicitors might have a certain advantage over German lawyers until the German practice rules change. Once they have changed, the prospects for German firms and for co-operation with English firms will be excellent, they say.

The rules are changing (although they are not a political priority), but until they do, the question is: would English firms be better off doing the sort of work they are currently able to do in Germany from home?

In that way they would continue to be able to call on the best available skills from a variety of German firms to advise on the German end of transactions rather than setting up in direct competition with them, either on their own, or in association with one German law firm, in one locality, restricting themselves to the knowledge and expertise of that one firm?

What advantages would an office in Germany offer a firm like Linklaters & Paines, for example? Linklaters' core businesses are mainstream corporate work, commercial property, international finance and litigation.

In terms of turnover from its foreign offices, the greatest slice comes from capital markets work. In Germany, international securities work is done under German law, which means it cannot be done by English solicitors. But most of it is not even done by German law firms. It is done internally by the banks where, incidentally, the greatest concentrations of German lawyers are to be found.

Property work, as elsewhere in Europe, is tied to local areas and is essentially a reserved activity for the local profession. Litigation similarly is a reserved activity. That leaves mainstream corporate work and, in particular, mergers and acquisitions.

Linklaters' business is client-driven, according to Mr James Wyness, the firm's managing partner. In other words, in deciding whether to open an office in Germany it will ask itself first what is the best service it can provide its corporate clients in the form of investment into and out of Germany.

Its current thinking is that clients' interests are best served by a combination of the best firm in the UK and the best firm in Germany for the particular transaction. Linklaters has very close working relationships with a number of Germany's top commercial firms. German legal services are excellent, he says. It would take a long time to compete on your own with the likes of Frankfurt's Müller Weitzel Weisner or Cologne's Boden Oppenhoff and Schneider.

What about in association with one of those top German firms? In terms of German domestic legal services it is difficult to see what advantage the addition of an English law capacity offers the clients of Germany's top commercial law firms over what they already provide.

In international terms it is true that the clients of Gleiss & Partners will now have access to Clifford Chance's international network of offices. However, it is arguable that before the tie-up its clients had access not just to Clifford Chance's international network, but also to those of any number of other top international law firms. They no longer have that access.

Gleiss & Partners could also make use of Clifford Chance's freedom of establishment to set up Germany's first truly national practice, although the cost of doing so would surely be prohibitive in the short term. On the surface, for an English firm to join with a Stuttgart firm in opening an office in Frankfurt to compete for business with the best of that city's long established law firms already looks a brave move.

It is important, however, not to overlook the potential cosmetic effect of having an office in Germany – the effect on clients of being there and being seen to be there.

There is infinite room for law firms to disagree about the wisdom of Clifford Chance's move. But even those who believe that in reality the best approach lies in maintaining existing relationships with German law firms will have half an eye on the cosmetic impact.

LEGAL APPOINTMENTS

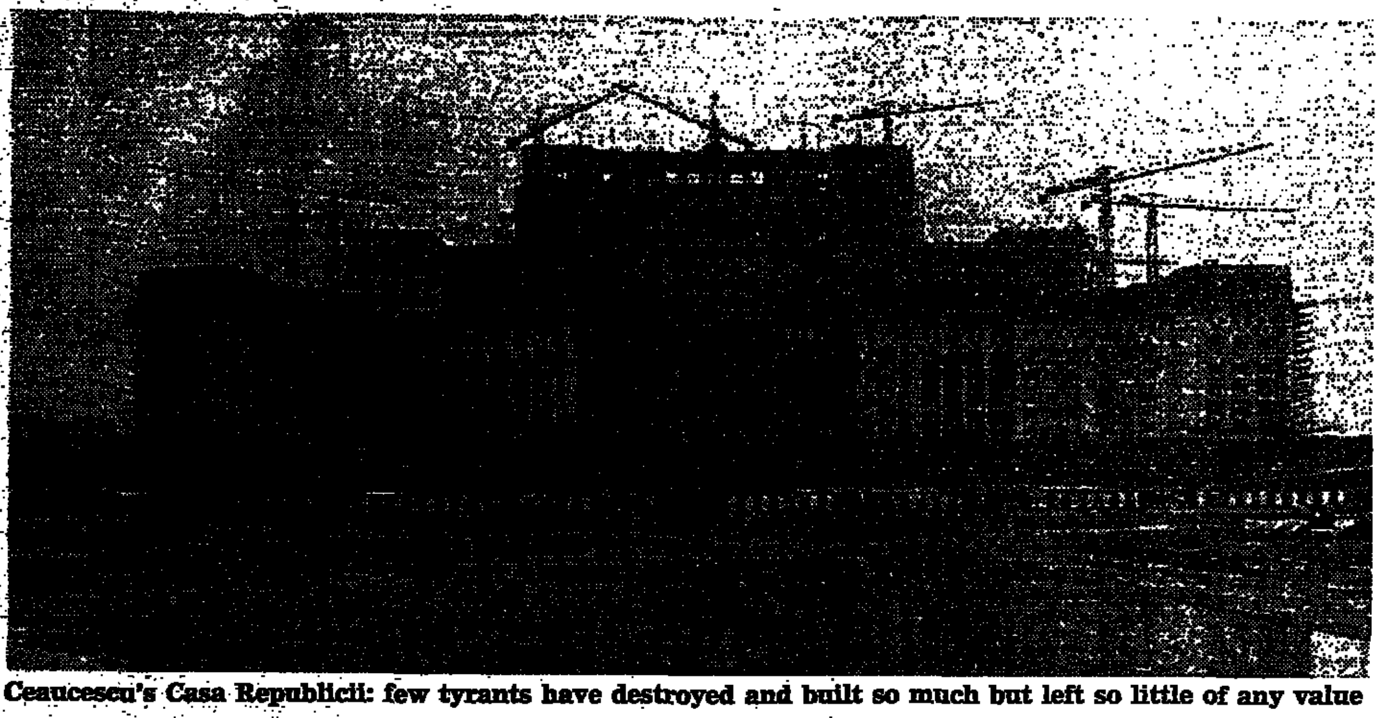
ARCHITECTURE

Watch the wind blowing from the East

Colin Amery looks back at the 1980s and hopes that the 1990s will bring architectural glasnost

The most memorable sight of the last decade was that of the helicopter rising from the roof of the party headquarters in Bucharest taking the late dictator Ceaucescu into hiding and his ultimate captivity. I wonder what the thoughts were of the dictator and his wife as they glanced out of the helicopter window and saw the mile-long Boulevard of the Victory of Socialism culminating in the giant marble-faced palace, the Casa Republicii? All that they *saw* they had made.

The Ceaucescus were probably the greatest demolishers and, in terms of scale, the greatest builders in Europe. They have left behind built monuments on the scale of Stalin, Louis XIV and the Czars. But they have left Romania nothing of architectural distinction and successfully destroyed acres of the fine old Balkan capital. They were just getting going on the cruel systemisation programme (read elimination) for the villages. Their intentions were to remove all traces of village life, not just old houses but churches and family graves.



Ceaucescu's Casa Republicii: few tyrants have destroyed and built so much but left so little of any value

When I was in Bucharest in 1968 I was inevitably struck by the mad folly of the regime. The weakness of the design of the blocks of vaguely post-modern flats was sad. The style chosen for the dictator himself in the 700-roomed Casa Republicii was that of ignorant megalomania. He imposed upon Romania an horrific and deliberate spoilation of the past. Few other tyrants have destroyed and built so much and yet left so little of any value.

The message at the end of the 1980s is a clear one. In Europe we have to look to the East. It is now miraculously possible to cross the Glienicke Bridge in Berlin, to walk the length of the Unter Den Linden – perhaps it will soon be possible to sail from the city of Berlin to Potsdam. Cognoscenti have always known that it is possible to eat drink and be merry in Budapest just as stylishly as in Vienna. The only difference has been that life is much less expensive in Hungary. Presumably now the steamer service from Vienna to Budapest will improve to allow a leisurely journey on the Danube that shows Budapest's architecture at its best. The glory of Pest is that you can unashamedly enjoy unspoilt 19th-century architectural splendour.

The great cities of Eastern Europe have all suffered some politically motivated damage but architectural riches abound. The general urban environment is untainted by the ubiquitous advertising of the West and the omnipresent Americanisation of so much Western European popular culture. For how long will the spas of Bohemia or the City of Prague continue to enjoy that glorious sense of isolation from the over-commercialised tourism of the West?

One of the great excitements of the 1990s will be to see which way the architectural winds will blow east of Vienna. I feel that the West has as much to learn as to teach. In terms of architectural conservation, Eastern Europe is in many respects ahead of the west. Craft skills have remained alive. A comparison of the slow and steady work of architectural conservation in Prague to the hasty and insensitive work that has happened in much of Austria is weighted heavily in favour of the East.

Prague has without doubt an unrivalled number of Baroque and medieval buildings that have survived in an extraordi*narily unscathed condition. It's* glorious art nouveau western railway station has yet to enjoy the additions of a Sock Shop or a Mercury telephone booth. It will be fascinating to see how the prefectly natural wish for an improved standard of living will affect the untouched architectural history that survives so splendidly in much of Eastern Europe. Will glasnost mean that we can visit the great cities of the Baltic more easily? Will Konigsberg be visible again or remain in its military limbo?

Riga, Tallinn and Vilnius may become tourist towns, celebrating the unspoilt pleasures as survivors of an earlier Baltic prosperity. In other parts of the Soviet Union too, the inevitable increase in tourism is likely to prompt an interest in the relatively uncharted waters of vernacular and regional architectural achievements. The key question for the 1990s will be to *discover* whether political freedom also generates creative freedom and energy in the East.

Political involvement in environmental issues has remained a dominant theme of the last decade in Britain. There have been six Secretaries of State for the Environment. Michael Heseltine, Tom King, Patrick Jenkin, Kenneth Baker, Nicholas Ridley and Chris Patten. All the ministers have struggled with the awkward question of how much aesthetic control they really have. The ethos of the decade has been towards more commercial freedom and individual responsibility.

The effects of this can best be seen in London's Docklands, which represent the true monument of the last ten years. The area is, in architectural and planning terms, a grave disappointment. Interestingly enough the new "green" Environment Secretary has, in the few months he has been in office, shown a greater faith in planning than any of his predecessors. He does speak as though the laissez-faire years had hardly happened.

But planning is not the answer to the aesthetic uncertainty that seems to have marked the decade. Only good buildings can deal with that problem. The problem now is to find agreement about what is good and what is not. Throughout the last ten years one tragic theme has run persistently: it is the apparent inability of architects to apply objective standards of quality to what they build.

The Prince of Wales has effectively stirred up the debate, but he has been deliberately misunderstood by architects who lack any sense of objectivity. Too often any *utterance of an opinion* on an architectural matter takes on the quality of a piece of evidence in the Dreyfus case.

"Which side are you on?" is the cry. The fact is that there is not a side to be on. There are finite standards of architectural quality that properly applied produce either good or bad buildings. The buildings can be in any style. The offensiveness of the architects who turned up to "defend" their profession at the architectural debate at the V&A in December last year was almost unbelievable. The motion was foolishly drafted as "The Prince of Wales rules OK?"

Paranoia had replaced intelligent, objective critical judgment on all sides of the debate. Good buildings demand a creative client with a serious wish to build well. Of course you need a good architect but even a mediocre architect can be helped by a well informed client.

The most important achievement of the last decade has been the extraordinary opening up of the public debate about architecture. Only the architects seem to resent it – perhaps it will take another decade to prove to the profession that a flourishing future depends, in Britain as much as in Eastern Europe, upon freedom of debate. We have all seen too much of what can happen when dogma rules. Architectural dogmas seem to be almost harder to move than political ones. May the 1990s bring us architectural glasnost.

SPONSORSHIP

Japanese move in on the Summer Show

The Royal Academy, currently contemplating a worrying deficit, has found an impressive sponsor for its 1990 Summer Exhibition: the Dai-Ichi Kangyo Bank of Japan, which just happens to be the biggest bank in the world, at least in terms of assets. It will be the RA's first Japanese sponsor.

The bank was looking for a way to celebrate 25 years in the UK and approached the RA, mainly because it had fond memories of the Greater Japan show held there in 1981. It is giving £100,000 outright, which makes a welcome change from the usual deal at the Academy under which exhibition sponsors offer a guarantee against loss. Since the Summer Show usually makes a tidy profit it has rarely been sponsored, although both IBM and Esso have been associated with it as part of their wider financial aid to the RA.

DKB has never sponsored the arts before, anywhere, and, surprisingly, gets few requests from arts institutions for help. This may now change, but since the promotional budget of its London operation is strictly controlled by Tokyo, it is unlikely to become a lavish sponsor.

It appreciates the fact that the Summer Exhibition is as much a part of the London season as Wimbledon and Ascot, and is using the link to host its anniversary party in the Academy. It also likes the numbers visiting the Show. Last year it attracted around 140,000 people, and sales of art topped £1.5m in value (of which the RA takes 25 per cent commission). Fewer works of art were sold, but in line with the RA's drive to improve the quality of the exhibits the average price of each transaction (which includes prints) was up from £406 to £580.

The RA is currently crawling with builders, which affects its 1990 programme, but it hopes that its main show of the year, the "Series Paintings" (all those repeated haystacks, Japanese bridges, etc.) of Monet will help to ensure that its deficit this year is much reduced. The Monet show is sponsored by Digital Equipment of Boston, which is investing over $2m in an exhibition which will visit Boston and Chicago before it comes to the RA.

□ □ □

The biggest arts sponsorship in the UK is the £3m that Shell is pouring into the British Academy of Film and Television Arts (BAFTA) over three years. It is now half way through the relationship, time to assess its impact. Both sides seem happy with the venture.

It is a rare mixture of promotional opportunism and altruism. Around 60 per cent of the money goes towards events which promote Shell as much as the film and television industries.

BAFTA has been successful in the creation of televised galas, such as the tributes to Dirk Bogarde and Julie Andrews. *In all there have* been ten BAFTA-inspired TV programmes which have carried credits, both verbal and visual, to Shell, and the hope is that as sponsored programmes become more common so Shell's pay-off will increase.

The rest of the money is spent on training and education in film and television: funding the Children's Film Unit, Fulbright Awards, literature for schools, grants to film and art colleges, etc. The overall brief of the link is to improve the excellence of the British film industry.

BAFTA is a very attractive proposition to sponsors, partly because it is the heart beat of one of the UK's most successful arts activities of recent decades – the creation of top quality television programmes and films, but mainly because it can offer television exposure of its special events – its connections with the ITV contractors are so good. The Shell bonanza has not hindered BAFTA's success in gaining support from other companies, and in the past 18 months it has received over £3.5m in total sponsorship, with companies like Thames Television and Rank among its other backers.

Indeed BAFTA is probably the most successful "arts" organisation in the UK when it comes to selling itself to sponsors. It needs to be, since it receives no Government aid. At the moment it has the builders in, like the RA, but by the summer should have almost doubled the space of its Piccadilly premises, enabling it to boost its revenue as a conference centre. It is close to finalising a £1m sponsorship of these new facilities.

The £3m is distributed through a joint BAFTA-Shell UK committee. The two organisations are well matched. Shell has run a distinguished film unit for half a century, and the international spread of the oil company coincides with BAFTA's brief to publicise abroad the achievements of British film. In the summer BAFTA is organising a Film Week in Kiev as part of the British arts festival taking place there. Such an event makes good business sense for a multinational like Shell.

□ □ □

Pirelli is a discriminating sponsor of the arts. Its main venture this year will be an investment in the Bankside Gallery, home of the Royal Watercolour Society, which will enable it to mount "Visions of Venice" in the autumn, a comprehensive exhibition of Venetian views, in watercolour, by British artists. The show will include important works by Turner, Bonington, Ruskin, and Sargent, and up to the present day.

The final cost will be over £70,000, which will enable Bankside to promote the exhibition, one of its most important for years.

□ □ □

Television companies, although they are dependent on writers, actors, and musicians, for most of their output, are not the most lavish sponsors of the arts. But LWT is persisting with its "Plays on Stage" scheme, under which it gives increasingly generous sums of money to drama companies to enable them to mount productions of plays which might otherwise fall by *the wayside*.

The winner for 1989, announced late last month, was the Black Theatre Co-operative, which gets £18,000 to finance *The Panbeaters*, a steel band musical. Cumbernauld Theatre Company and West Yorkshire Playhouse were the other award winners, receiving £16,000 and £14,000.

Antony Thorncroft

Seven Lears

ROYAL COURT

Formulater of impassioned manifestos and author of often impossible plays, Howard Barker has established himself a curious niche in the theatre of the last couple of decades as the actor's playwright, who tends his flock on one side of the box office with much the same loving assiduity as he shoos them off on the other.

The Royal Court on the first night of this transfer from Leicester Haymarket – the first of three Barker openings in the capital this month – was packed with the sort of Barker aficionado who seems plugged in at source, anticipating every laugh by seconds and grasping every profundity with an almost tangible eagerness.

With *Seven Lears*, as with his earlier Middleton revamp, *Women Beware Women*, Barker returns to his dramatic roots and gives them a salutory tweak: his subject is Lear pre-*Lear*, starting from the premise that any man with daughters must once have had a wife – and having had one, what trauma could have erased her so totally from the dynastic memory? After due consideration, he comes up with Clarissa, child bride of a womanising prince, who matures into a Joan of Arc on her husband's battlefield; a woman as fatally incapable of dishonesty as her youngest (bastard) daughter was to prove in the later play.

Jemma Redgrave's Clarissa, bright of eye and clear of speech, embraces a strength that is denied to her doubting, vain and troubled husband. The Seven Lears of the title, reflected in the scene structure, gestures simultaneously at the seven ages of man and the many *faces* of a king who cannot grow up. Nicholas Le Prevost's mercurial Lear is obsessed with invention (represented by a da Vinci-style flying machine), beset by warfare (a succession of battle-dressed soldiers), infatuated with his mother-in-law (a defiantly sensuous Jane Bertish) and haunted by a chorus of gaoled wraiths who are simultaneously his sanctuary and his nightmare.

Deprived finally and irrevocably of their company, the now bearded and grizzled king resorts to a companionable game of chess with a cheating Kent (Philip Franks), recently returned from six years' meditation on an island where, in a strikingly macabre central interlude to the play, he was lapped by the putrefying corpse of a bishop. Comradeship, in a world of betrayals, flatteries and executions, has taken the place of religion, in a deeply ironic sublimation of male weakness.

Kenny Ireland, founder of the Barkerite Wrestling School, directs with the sort of reverence one has come to expect of this company and this playwright, allowing the manic inspiration of the writing to colour a design of sombre inventiveness. Thus indulged, Barker is long-winded, tortuous, occasionally very funny (as in Lear's perverse appointment of Roger Frost's pale-eyed, Polonius-like civil servant as court Fool), with moments of glistering insight which, as always, defy dismissal.

Claire Armitstead

Art in the making

The results of an investigation into the working methods of early Italian artists are now on show in the National Gallery's Sunley Room until the end of February. The exhibition, entitled *Art in the Making: Italian Painting before 1400*, includes complex altarpieces comprising as many as 12 separate paintings. All but one of the artists represented are from Florence or Siena.

Divertimento No. 15

SADLER'S WELLS

The Sadler's Wells Royal Ballet season lately ended in its ancestral home has told much about the company's history, strengths and identity. In repertory were ballets made for the troupe by four generations of British choreographers – Ashton, MacMillan, Bintley, and the aspirant Vincent Redmon and William Tuckett – and masterworks by Fokine and Balanchine. A vital continuity in the company's personnel was marked by the farewell performance of Margaret Barbieri, a much loved artist who was showered with affection and bouquets.

Programmes have included one of the company's recent successes, an alert staging of Balanchine's *Divertimento No. 15*. Led with an uncompromising clarity by Miyako Yoshida, the blissful mechanics of the choreography explore Mozart in patterns and exquisite solos, with the cast looking as if they were happily proving some celestial theorem.

Among the novelties to London were two apprentice works, *Auras* by Vincent Redmon and *Those Unheard* by William Tuckett, on which I commented at their Birmingham premieres. Both attempt, as youthful choreography often does, to make sense of scores too difficult. Poulenc's sextet must have seemed irresistible to Mr Redmon with its sophisticated manner, its alluring lyricism. To his credit, he is craftsmanlike in putting together fluent sequences of dancing, but he has not found cause to say very much, albeit he speaks with assurance.

Mr Tuckett decided on an even more intractable score in the four sea interludes from Britten's *Peter Grimes*. Even so, the strength of his vision imposes a dramatic scheme upon music impermeable to dance, as he tells of a girl irresistibly drawn to the sea. I hold no hope for the theme, but there is every hope for Mr Tuckett, as there is for Mr Redmon. And I admired Stephen Meaha's painted backcloth for *Those Unheard*, stained and splashed with shadow to create an evocative seascape.

Façade in this same bill found Margaret Barbieri and Stephen Wicks leading the fun. I salute Douglas Vardon's madly bright foxtrotter, but the point of the revival was to thank Margaret Barbieri for her 25 years' devotion to SWRB, and to cheer and cheer. Which the Wells public wholeheartedly did.

They cheered Dame Ninette de Valois, too, when she introduced Thursday's gala performance commemorating Sir Frederick Ashton's life and work, and given to raise funds for a studio in his name at the theatre.

The opening *Les Sylphides* was careful and unyielding – no gusts of Romanticism drifted across Benois' magical set, which was lit to resemble a dilapidated cemetery – but *Two Pigeons* as as charming as anyone could wish.

The young lovers were Sandra Madgwick and Michael O'Hare, artists who communicate a joy in dancing that lights up their characterisations, with Chenca Williams a spitfire of gypsy temperament as the Romany complication in their story.

On the following evening, Yannick Stephant made a pretty and very stylish figure of the girl (I reported with pleasure on her interpretation when *Pigeons* was staged by the Ballets de Monte Carlo), with Joseph Cipolla a Young Man of real sincerity and clear and shapely dancing.

The setting provided by the ensemble was, true to SWRB tradition, lively, spontaneous in feeling, and responsive to every mood of the ballet.

Clement Crisp

Otello

COVENT GARDEN

There are just three more performances of this noble Verdi revival, with all the original principals and the conductor of Elijah Moshinsky's 1987 production safely back in place. It is a severely dramatic affair, not a luxury-product. There is nothing flashy about Timothy O'Brien's handsome basic set (varied in detail to accommodate the various locales) – except quite literally in the opening storm scene, when the almighty crash with which the conductor Carlos Kleiber begins unleashes a grand meteorological phantasmagoria from Robert Bryan's lighting-board. The opera is played with a single interval, praise be, and only the briefest of pauses between the first pair of acts and between the concluding pair.

As before, Kleiber unfolds the score with marvellous subtleties as well as big, bold strokes. Many of the former enhance Verdi's woodwind passages, which Kleiber treats *con amore* and with lovely expressive freedom. I doubt that the restless orchestral complement to Otello's anguished monologue "Dio! mi potevi" could be treated more searchingly and poignantly; and he surrounded Desdemona's utterances, and indeed the women's chorus, with a memorable soft radiance. Above all, his mastery of the pace of the opera ensures that its trajectory seems undeviating and inexorable.

The tragic hero is again Placido Domingo, whose fame in the role is wholly deserved. Far from merely reproducing a celebrated portrayal, he seems to re-create it – even, occasionally, to discover fresh nuances and implications before our eyes and ears. By the standards of the gramophone, perhaps, the clean incisiveness of his phrasing is less heart-stabbing than, say, Jon Vickers' raw, wounded timbre; but on stage his vulnerably taut poise is very affecting.

Beside him, Katia Ricciarelli's Desdemona – in glowing voice – has a matching dignity; she addresses her music with full commitment, and not the least trace of prima-donna narcissism. Justino Díaz is robustly assured as Iago, no more complicated in motivation than Verdi and Boito made him: I was less gripped by his setpiece "Credo in un dio crudel" than by Kleiber's seething accompaniment (which nevertheless left a clear foreground for the singer). Robin Leggate's Cassio was seen before only among the second set of principals; now among the first team, he holds his own admirably – as well he might, for his upstanding, naively well-meaning victim is a model of the role.

The production does no special favours to the lesser characters. Anne Mason's Emilia, Christopher Gillett's Rodrigo, Gwynne Howell's Lodovico and the Montano of Geoffrey Moses were all sturdy and serviceable. The great *concertato* ensemble at the close of Act 3 was superbly managed, with the significant solo lines allowed to surface like bright ripples upon a sustained flood.

David Murray

ARTS GUIDE

January 8-15

MUSIC

London

Royal Philharmonic Orchestra conducted by Kazuhiro Koizumi, with Hiromi Okada (piano). Tchaikovsky, Rossini and Beethoven. Barbican Centre (Fri).

National Youth Orchestra of Great Britain conducted by Edward Downes, with John Lill (piano). Prokoviev, Rachmaninov and Dvorak. Barbican Centre (Sat).

English Chamber Orchestra conducted by Marcello Viotti, with Stephanie Gonley (violin). Mozart, Mendelssohn and Schubert. Barbican Centre (Thur).

Paris

Orchestre Colonne conducted by Vitaly Kataev, with Philippe Entremont (piano). Berlioz, Rachmaninov (Mon). Théâtre des Champs Elysées (47203637)

Francois-Rene Duchable, piano recital (Tue). Salle Gaveau (45683030)

Ruggero Raimondi accompanied by the Moscow orchestra of Tchaikovsky's Academy of Music (Wed). Opéra de la Bastille (47048115/47048893)

Orchestre de Paris conducted by Krzysstof Penderecki, KimKashkashian (alto). Penderecki, Tchaikovsky (Wed, Thur).Salle Pleyel (45630796).

Moscow Orchestra of Tchaikovsky's Academy of Music conducted byLeonid Nikolaiev (Thur). Opéra de la Bastille (47048115/47048893).

Ensemble Intercontemporain conducted by Peter Eotvos. Younghi Pagh-Paan, John Dowland, Klaus Huber, Sylvius-Leopold Weiss(Thur). Radio-France Auditorium 104 (42301516).

Brussels

Belgian National Orchestra conducted by Ronald Zollman with Imogen Cooper (piano). Beethoven (Sun). Palais des Beaux-Arts.

Belgian National Orchestra conducted by Ronald Zollman, with Heinrich Schiff (cello). Liadov, Shostakovich and Stravinsky (Thur) Palais des Beaux-Arts.

Milan

Teatro'alla Scala. Recital by bass Paata Burchuladze singing Tchaikovsky Glinka, Rachmaninov and Mussorgsky. (Mon) (809126).

Rome

Carlo Maria Giulini conducting Brahms' German Requiem, with soprano Barbara Hendricks and baritone Andreas Schmidt. Auditorium in via della Conciliazione (Sat-Tues) (6541044).

New York

New York Philharmonic, Zubin Mehta conducting with Pinchas Zukerman (violin). Haydn, Neikrug, Sibelius (Tue); Zubin Mehta conducting Beethoven, Haydn, Weber, Bizet-Waxman (Thur). Avery Fisher Hall (874 6770).

Washington

National Symphony Orchestra conducted by Mstislav Rostropovich. Tchaikovksy (Thur). Kennedy Center Concert Hall (467 4600).

Chicago

Chicago Symphony Orchestra conducted by Myung-Whun Chung. Bartok, Dvorak, Prokofiev (Thur). Orchestra Hall (435 6666).

Tokyo

Japan Philharmonic Orchestra conducted by Ken-Ichiro Kobayashi, with Asako Urushihara (violin). Dvorak, Tchaikovsky. Suntory Hall (Mon) (234 5911).

Tokyo Philharmonic Orchestra conducted by T. Otaka. J. Strauss, Lehar, Bizet. Bunkamura, Orchard Hall (Mon) (256 9696).

Tokyo Symphony Orchestra conducted by Naoto Ohtomo. Mozart, Bizet. Suntory Hall (Tues) (465 6115).

Wiener Johann Strauss Orchestra conducted by Alfred Escher, with Helen Donath (soprano). Strauss. Suntory Hall (Wed, Thurs) (403 1290).

FINANCIAL TIMES
NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 01-873 3000 Telex: 922186 Fax: 01-407 5700

Monday January 8 1990

A socialist charter

THE "Charter of Rights" espoused at the weekend by Mr Roy Hattersley, Deputy Leader of Britain's Labour Party, should be considered in conjunction with the party's proposal for an elected senate to replace the House of Lords, plus the establishment of regional assemblies in England as well as Scotland and Wales. The whole package, Mr Hattersley said on Saturday, "adds up to the greatest constitutional reform this century." It also manages to dodge some of the central issues.

For the Charter does nothing to increase the power of either the House of Commons or the judiciary to check the executive, or to counter-balance the initiatives of a wilful prime minister. Such checks and balances are highly desirable whichever party or prime minister is in power: "elective dictatorship" from No 10 Downing Street would be no more welcome if the incumbent were Mr Neil Kinnock than anyone else. The revelation last week that there are to be new terms of employment for civil servants, emphasising that their first loyalty is to the government of the day rather than the Crown or the constitution, indicates how important it is to protect the citizen from the unchecked use of authority by the government's chief executive.

Labour's constitutional proposals skirt around this. The Charter would strengthen the law against racial or gender discrimination and provide for more legal aid. Sentencing policy would be reviewed. There would be a Freedom of Information Act, which is welcome, and possibly a Right to Privacy Act, which is more doubtful. The Security Services would, rightly, come under the supervision of a Standing Committee of the House of Commons.

Alternative

Mr Hattersley offers most of this as a better alternative than simple incorporation of the European Convention on Human Rights into British law, but that gives the game away. For in the discussion following his speech on Saturday, Mr Hattersley defined the European Convention as "a robust statement of the primacy of property rights over other rights." He gave an example: the Convention would prevent Labour from abolishing private schools, if that policy, currently abandoned, were to be taken up by the party again.

It is reasonable for a Labour leader of Mr Hattersley's generation to argue that liberties only exist if people have the means to exercise them – and thus to press for decent health services, education, and the like. It will not, however, help the party if the electorate senses that its recent conversion to moderation is a sham, or that it is likely to burst out of its present sheep's clothing once it has control over Britain's unique constitutional powers.

Policy review

Other sections of Labour's policy review have taken the Party a long way. The acceptance of its broad conclusions by conference last autumn coincided with its strong recovery in the opinion polls. Labour is now adopting the appearance of a social democratic party, in contrast to the 1970s-style socialism that the British electorate has so decisively rejected. Its proposal for an elected House of Lords, with the power to postpone entrenched legislation for the life of a Parliament, is an ingenious one that deserves further study. Although the value of regional assemblies in England has yet to be proven, the Scots ought not to be denied if that is what they want. Devolved powers – upwards to the new senate and downwards to regional bodies – might well limit the authority of central government. The possibility that proportional representation might be introduced for the new elected bodies (although, regrettably, not the Commons), is encouraging.

With the exception of the Scottish assembly, none of this is on Labour's list of priorities. This is a pity. The principal success of the Thatcher Government of the past decade has been to clear up the mess left by the Labour administration that preceded it. This rollercoaster of policies is a product of Britain's adversarial constitution, and needs to be corrected. Labour has not so far met the challenge. The Conservative Party has an opportunity to take it up.

New ways and old habits

THE SOVIET UNION is in a state of hypertension, of extraordinary contradictions. Under Mr Mikhail Gorbachev's leadership, it has passed from a condition of corrupt and declining, if relatively predictable, authoritarianism to one of hugely ambitious ideals and mostly miserably low practice.

Soviet diplomacy has dazzled and delighted the world with its brilliant playing of a weak hand while intellectual and cultural life has been liberated. Beyond that, it seems, the devastation wreaked on what little there was of pre-Soviet market and democratic culture has been all too complete.

In industry, the self-financing law is largely a dead letter: the market-like behaviour it was designed to encourage largely smothered by the continuing dominance of state orders, and by the deadening fact that managers know they can sell anything in a perpetually empty market. The banking system has seen a plethora of new "banks" formed, yet most continue to pump money into bankrupt enterprises on the orders of the state. Price reform has been explicitly delayed because of its presumed effect on social peace, and so has rouble convertibility.

Nationalist, religious and ethnic movements of huge power sweep through nearly all of the 15 republics (including the Russian one) yet the imperial centre can neither loosen its formal central grip nor effectively strike back. Glasnost has produced a journalism and public discussion in which experts of every kind discuss every problem with great frankness and at great length, yet any kind of action based on these debates is small and slow. The residual impression is of a frantic despair.

Market socialism

The key blocks are ideological and historical, or an unravelable mixture of the two. The practical aims of the economic and political reforms must be confined within an outcome which is already ideologically given – that is, of a new kind of socialism. Thus while the reforming leadership wishes to encourage market mechanisms and behaviour, it decrees that they must conform to an as yet unattained state called market socialism, which encourages every Party and state bureaucrat to rub out every sign of discomfiting enterprise on his patch.

Similarly, the leadership wants more democracy – but within the Communist Party, which will continue to have a monopoly and a leading role. Thus the actual social differentiation of Soviet society, crying out for political representation, is suppressed – though again, not effectively, since what has been happening in eastern Europe is freely observed and, indeed, approved.

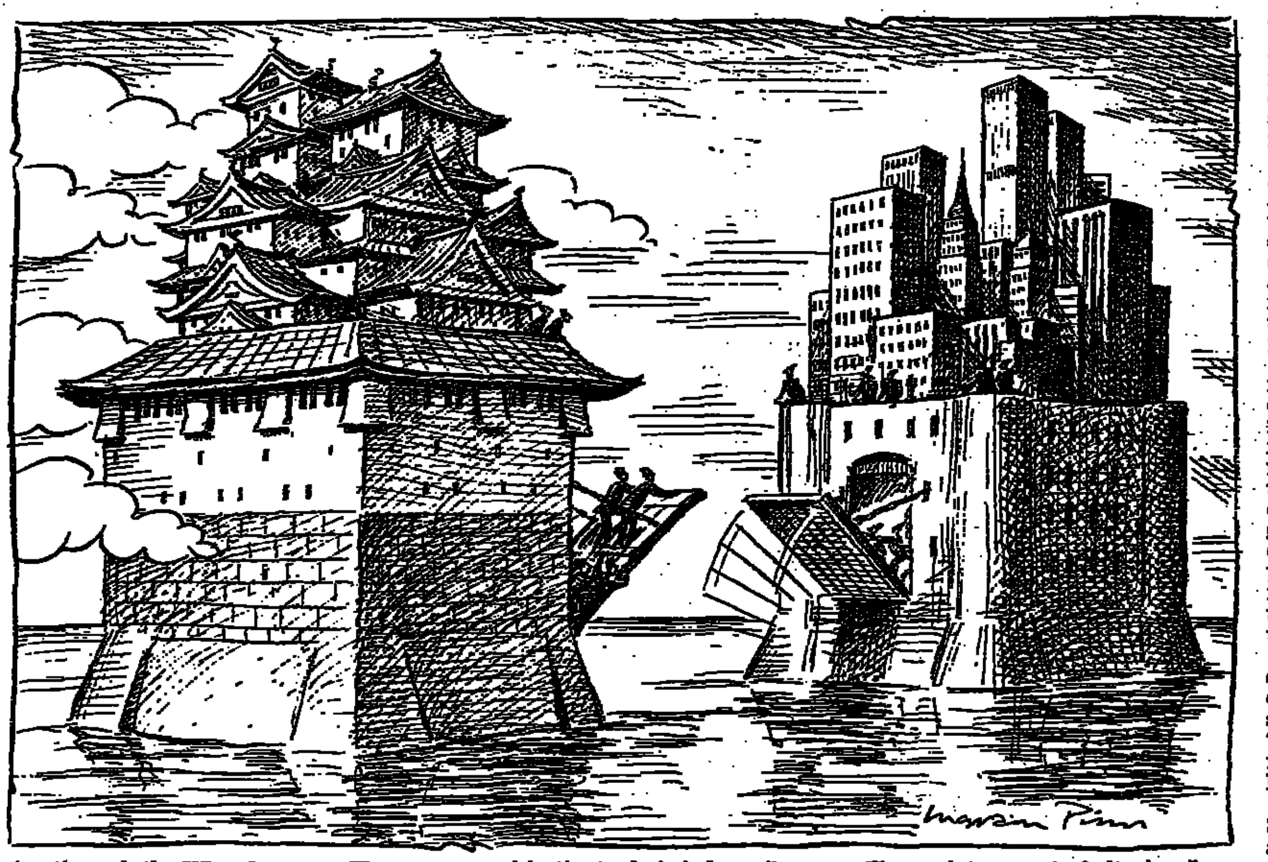
Imperial anachronism

Finally, the co-option by Lenin and his heirs of Russian imperialism into Soviet power has produced a late 20th century anachronism: an empire in a world where every other power (except the Chinese in Tibet) has recognised the folly and expense of foreign possessions for decades. Yet just as he cannot renounce socialism and the Party's leading role, so Mr Gorbachev cannot dissolve the union sanctified by Lenin – even as he endlessly and skilfully finesses the challenges presented to him, as in Lithuania this week.

At the heart of this is a mystery. Do Mr Gorbachev and his colleagues actually want a renewed socialism, a democratised but still monopolising Party and a freer but still integral empire? Or do they know very well that the contradictions whose lineaments they have courageously allowed to be highlighted cannot be reconciled and that they are providing smoke for a retreat from socialism, for the development of pluralism and for the end of Empire? This enigma has been a convenient one for Mr Gorbachev to sustain in these past years. But, at the beginning of a new year, it is right to question if it can be kept going much longer. It seems likely that its utility is now turning to a burden, that the balancing act confuses and blocks more than it enlightens and permits: and that clarity, with all its risks, is the only way in which the Soviet Union can now avoid a breakdown which might be terrible, for its people and for the world.

Ian Rodger reports on Japan's reaction to changing attitudes in the US

A challenge to the enigma



Japanese businessmen and government officials are rightly acclaimed for their speed in recognising and responding to important changes in their external environment.

They have, for example, been extremely active in investigating and analysing the significance of the European Community's plans for establishing a single market in 1992, as many weary Brussels bureaucrats can testify.

Yet over the past year they have largely failed to respond to the emergence of a phenomenon that is potentially a bigger threat to their country's – and perhaps the world's – welfare than any new EC regulation.

That phenomenon is a new school of thought about how Japan works. First enunciated by the Dutch journalist Karel van Wolferen in a book, The Enigma of Japanese Power, published early last year, the thesis is that Japanese society works in very different ways to those of other industrialised countries and is hostile to any foreign intercourse other than for cold profit.

In recent months, a wide variety of US and European businessmen, government officials and intellectuals have embraced the Wolferen thesis with enthusiasm, seeing in it plausible explanations for the frustrations they have had in dealing with Japanese counterparts over the years.

Applied at the human level, it can explain why there seem to be so many misunderstandings and failures in attempts to form good relationships with Japanese people. Applied to the trade and economic scene, it has been used to explain why Japan continued to pile up huge trade surpluses with the US despite a doubling of the yen's value four years ago.

More seriously, there is little doubt that revisionism, as this new school of thought is now called, has influenced the development of a much tougher direction and tone of US trade policy towards Japan. The US government seems to be responding to the call by one prominent revisionist that it should take steps to "contain" Japan, much as it has contained the Soviet Union for the past 40 years.

This new thinking even appears to be having an impact on the hitherto sacrosanct bilateral security relationship, as reflected in the row over joint development of a new Japanese fighter aircraft.

Waves of Japan bashing have come and gone in the US in the past without causing much damage, but the latest one is especially dangerous for two reasons. First, Japan is now so powerful in economic terms that the management of the world economy requires smooth co-ordination between the US and Japanese authorities. Second, because Japan has been so successful (and because the US has serious social and economic problems), Japanese leaders and even ordinary people in Japan are less inclined than they were to accept US criticisms and demands without question.

Indeed, something of a revisionist school is developing among Japanese intellectuals as well. It posits that the US model of market capitalism, with its emphasis on short term profits and stock market deals, is failing while Japan's *dirigiste* system should be celebrated as a better way. Its most aggressive spokesmen argue that Japan should break away from its close ties with the US and cultivate relations with its Asian neighbours.

Japanese business leaders and top government officials recognise the strength of the revisionist wind blowing through the US and Europe. They are very worried about it, and they disagree fundamentally with the Wolferen thesis. Yet they remain perplexed about how to deal with it.

When Newsweek magazine quoted claims that Sony's purchase of Columbia Pictures amounted to buying a piece of America's soul, the foreign ministry spokesman could produce only the lamest response. "So many other foreign countries have bought companies of a similar nature, but no other nations have been described as having bought a piece of soul," he said.

So far, only two substantial criticisms of revisionism by Japanese have been published, and both have restricted themselves to attacking its claim that the Japanese economy is not responsive to normal market forces.

Masaru Yoshitomi, research director of the government's Economic Planning Agency, pointed out in a recent article in The Japan Times that between 1985 and the first half of 1989, the volume of Japanese exports increased 11 per cent, but the volume of imports jumped 47 per cent, and manufactured imports doubled in volume.

"There are specific factors responsible for this sharp jump which deserve careful analysis. These factors are, to wit, the yen's nearly 100 per cent rise against the dollar and the 6 per cent annual growth rate in Japan's domestic-demand from 1985 to 1988. Why do the revisionists seem to dislike discussing such basics of macro-economics?" Mr Yoshitomi asked.

As for the apparent rigidity in the bilateral US-Japan trade imbalance, Mr Yoshitomi attributed most of it to price changes forced by the yen's rise and to the fact that the value of US exports to Japan in 1985 was only two fifths the value of imports from Japan. "Thus, if the value of US exports to Japan does not increase 2.5 times as fast as the value of imports from Japan, little improvement can be expected in the trade imbalance."

Kazuo Nukazawa, managing director of Keidanren, the powerful confederation of business organisations, argued along similar lines in a recent article in Chuo Koron, a Japanese magazine. "In the three years between 1985 and 1988, Japan's imports of manufactured goods expanded sharply from \$40bn (£24.8bn) to \$92bn. Doesn't this fact alone fly directly in the face of allegations that Japan's markets are totally impervious to exchange rate fluctuations?

"Japan's imports from the US are larger than the combined volume of imports (from the US) by West Germany, France and Italy. This, in spite of the fact that both the combined GNP and population of these three countries are larger than those of Japan. No American economist, when reminded of this fact, has given me a sensible reply," Mr Nukazawa grumbled.

He went on to say that it would be foolish for Japan at this point of its development to pursue a policy of adversarial trade. "Japan is not in economic warfare. Direct investments in the US represent a transfer of productive resources to America. And they will suffer greatly if the US economy becomes ill. Ours is not the mercantilist's heyday when the gold earned through trade was saved in a war chest as the ultimate reserve of national power. Less than two per cent of Japan's foreign exchange reserves are in gold.

The new school of thought about Japan has led to a tougher US trade policy

"The money earned by the Japanese goes back to New York banks, securities trading houses, and the US Treasury. In an age in which the key reserve currency itself depreciates in value, the pursuit of mercantilism will turn into an act of altruism."

The Yoshitomi and Nukazawa arguments are useful as far as they go, but it is unfortunate that they are restricted to the economic aspect of revisionism. It is as if the authors cannot understand how any credence could be given to a school of thought whose economic foundations are so shaky, and so see no point in taking on its other claims.

In fact, the revisionist movement is fuelled not just by trade statistics, but also by the negative feelings and impressions that Western businessmen and officials have accumulated over the years in dealing with Japanese. For example, the revisionists make a lot out of that peculiar group of Japanese academics devoted to Nihonjinron, the study of ways in which Japanese are different from other human beings. The very notion is, of course, absurd because Japanese are not even a race, being a complex mixture of Asian and Pacific basin races. But its existence reflects the fact that some Japanese still want very much to differentiate themselves from others, and Western people who have had frequent contacts with Japanese cannot help but become aware of this sentiment.

A white South African visiting Japan two years ago remarked after being in Tokyo for two weeks, "Now I know what it feels like to be black."

More important, Nihonjinron has often crept into Japanese trade negotiating tactics, being used as a justification for protectionist policies. At times, this tendency has reached absurd proportions.

Three years ago, the Japanese ski equipment industry managed to round up an academic who claimed that Japanese snow was different from that found elsewhere and so special standards for ski equipment were needed in Japan. Two years ago, during negotiations to open Japan's beef market to imports, it was suggested that Japanese people cannot eat too much meat because their intestines are longer than those of other peoples, and their digestion process slower.

The revisionists have blown the whistle on this sort of nonsense, saying, in effect, "Fine, you say you are different. We accept your argument, and therefore we must treat you differently."

A few Japanese leaders have understood the significance of this gambit, and one finds in conversations with top officials and businessmen these days that they will probably try to emphasise the similarities between Japanese and other peoples. Fortunately for them, this is much easier than it might have been only a few years ago.

Thanks to their new affluence, more and more Japanese people, especially the young, are demonstrably indulging themselves in fads and fashions in ways that are virtually indistinguishable from those seen in the West. Moreover, the recent success of many Japanese companies in getting the same kind of performance out of workers in their US and European factories as they do from Japanese workers helps to dispel the myth that Japanese workers are somehow uniquely and frighteningly different.

Akio Morita, the irrepressible Sony chairman, expounded enthusiastically on this theme in his recent controversial book, The Japan that can say "No", written jointly with the Japanese parliamentarian, Shintaro Ishihara.

Morita pointed to the experience of Sony in the US and the UK where applying the Japanese approach of treating employees as part of a corporate family with common interests in its progress has paid big dividends.

But so far, Morita is virtually the only Japanese leader who has addressed these more intangible issues publicly.

There are a number of possible reasons for this strange Japanese silence. The language barrier is probably a large factor. Most of the texts on, and debate over, revisionism are being carried out in English and so have simply not been noticed or understood by large sections of the Japanese leadership and general public.

When asked recently about the importance of revisionism, a leading Japanese parliamentarian, long familiar with negotiations with the US, confessed to being unfamiliar with the term or, when it was explained, the school of thought.

Another problem is that the Japanese have little experience in participating in international political debates. Up to now, they have largely avoided taking stands on international issues, except in areas of direct economic consequence to them. Even in those cases, such as the revision of 301 clause of the US Trade Act last year, they have tended to use public relations agencies and lobbyists rather than intervene themselves. Now, as a result of the popularity of the revisionist view, the use of surrogates has become counter-productive. Any American who defends Japan these days is branded an apologist.

Yet another factor is that Japanese culture is still quite rigidly Confucian. Younger officials and businessmen, who have been raised in the postwar period and would be ready to express opinions, still have to restrain themselves out of deference to their seniors. And most of their seniors are still stuck in the traditional Japanese way of intercourse which seeks above all to avoid expressing disagreement.

Of course, insofar as this situation persists, it helps prove the revisionists' case – that is, that the Japanese really are different.

OBSERVER

Phew, what a scorcher!

■ It was comforting yesterday morning to find The Sunday Times back to its usual 18 sections, several cunningly concealed inside the opposition and three devoted to explaining what was in the other 15. But even this may not be enough, for it is becoming increasingly apparent that several supplements will be needed in the future to chronicle the soap opera of the British media itself, or themselves, depending on your grammatical point of view.

As a pre-emptive strike, it may be a useful exercise to bring readers up to date with the respective, sometimes interconnected, plots.

Peter leaves Robert to rejoin John in the quixotic Mission to Inform. Robert, additionally bereft because of the loss of old friends Nicolae, Elena, Todor, Janos and Erich, and possibly Wendy, contemplates bailing out Alan.

Meanwhile, Andrew leaves Conrad, apparently on satisfactory terms, but promptly hooks up with Rupert, an old rival of Alan, Robert and Conrad.

This infuriates Conrad, and possibly another Andrew, who looks like losing his sky pilot's licence, the already disaffected Perry and Frank and even Ivan.

Most promptly write rude letters and articles about the first Andrew. Conrad again corrects Max. Donald, worried about Andreas, abandons snooker for rugby. All, or most, adjourn to the Rover's Return, also known as the Garrick.

Post mortems

■ But it is not only at home that the media is making news in ways in which, in a purer world, it might not. Both Conrad Black and Robert Maxwell (see above) have been in different degrees involved in the unhappy current plight of one of the erstwhile beacons of good journalism in the Middle East, the Jerusalem Post.

It was Black who outbid Maxwell for control of the Post last year, much to the delight of the paper's then owners, the troubled Koor Industries, which never expected \$17m plus for a publication which barely breaks even, and to its journalists, who were in an ABM (anybody-but-Maxwell) mood.

There is no such happiness today at the Post. In the last couple of weeks, its editor has resigned, more than 20 other senior journalists have left, the remaining 50 odd are threatening to strike and there is a lot of talk among the disaffected about setting up a rival newspaper.

The object of their discontent is Yehuda Levy, the Post's new publisher, installed by David Radler, president of Hollinger, Conrad Black's Canadian company. The battleground, not surprisingly, is the Post's traditional liberalism. It was an editorial criticising Yitzhak Shamir which brought down the wrath of Levy and prompted the previous editor to quit.

"One of my biggest mistakes in the past six months was that I was too eagerly sticking to my promise not to interfere with editorial independence," Levy told the journalists, which did not exactly go down well.

Levy is a former army quartermaster general with no previous newspaper experience. He apparently met Radler when working in Canada for the Jewish National Fund.

Badmouths in the opposing camp say he was the only Israeli businessman Radler knew. As a "sabra", a native-born Israeli, he has little in common with the British, American and South African ruling elite at the Post.

Conrad Black himself has not been visible in the dispute but Radler has fully backed Levy. "All we want is fairness and balance. If they're incapable of providing that balance, then I'm glad they're gone. Life goes on," he said.

"I keep thinking Kenneth Clarke's doing a fine job."

Publishers write

■ In the United States, publishers apparently have a nicer sense of propriety. Thus, a company boss writes to a business magazine to complain. "Whatever my faults as a CEO, I would hope that even a passing familiarity with my career . . . would make clear that remoteness and indifference to employees aren't among them. I do have very definite opinions on executive compensation. I'm sorry that Fortune didn't ask me directly."

The boss is none other than Richard Munro, co-chairman of Time Warner, which happens to publish Fortune.

This presumably means the readers of Fortune can look forward to further gems from the inter-office mail whenever the letters page is short of copy.

Also an ex-king

■ A similar touching faith in the power of the printed word also emerges from an unlikely source on a farm outside Johannesburg. There, King Leka I, the son of King Zog I who ruled Albania from 1925 to 1939, says he will soon start dropping leaflets by balloon into Albania, calling on his countrymen to rise up against the despots and atheists in power in Tirana.

Leka, who has lived in South Africa for 10 years and says he earns his living by exporting minerals to the Middle East, has been in exile since he was three days old.

The least this column can do, having helped light up the London skyline over Christmas by sponsoring a decorated crane competition, is to offer his ex-highness the services of the FT hot air balloon.

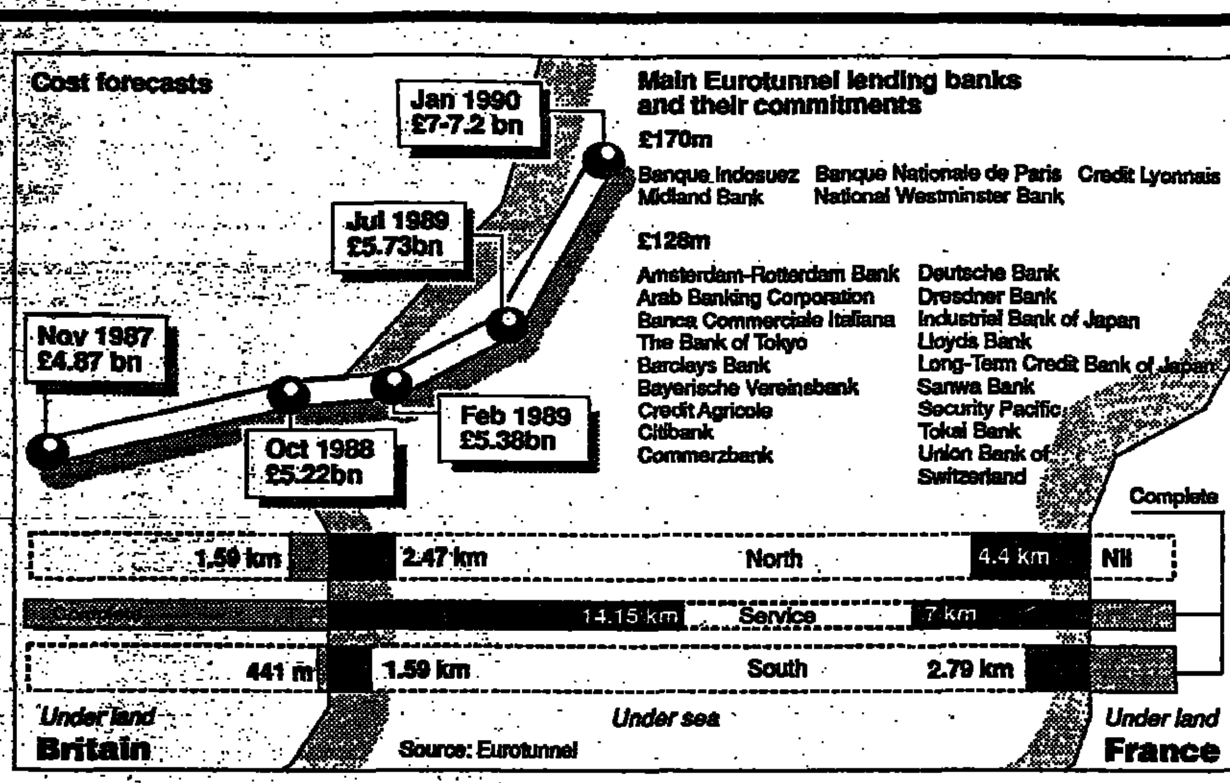
Word power

■ If the Albanian regime can thus be brought to its knees, imagine the millions who will be flocking to Frisia (possibly Friesland) attracted by the finest tourism prose since Gerard Hoffnung extolled the merits of Tyrolean landlords.

"During the holiday of the construction industry (July/August) you may enjoy the unique competition between the Frisian skippers on their ancient *tjalks* when backwaters as well as feelings are sometimes running frightfully high, for it is a real fight this competition called *Skûtsjesilen*."

Just the spot for Conrad, Robert, Rupert, Andrew et al.

Jurek Martin



David Lascelles and **Kevin Brown** examine the tension over financing Europe's biggest construction project

Digging for a bankable tunnel

This weekend, Eurotunnel celebrated the completion of its 50th kilometre of tunnelling – one third of the total. But by the end of this week, it has to know whether the money will be there to dig so much as one metre more.

Over the next couple of days the managers, contractors and bankers of this immense project must all agree on a new financing package to absorb and contain the huge cost overruns which threaten to cripple it. If they fail, they will have no choice but to shut it down. But it is precisely because of the enormity of such a prospect, and the grave damage it would do to all the companies concerned – to say nothing of British and French national prestige – that the worst will probably be averted. The question is, how?

The crisis was triggered by the revelation last October that soaring costs had pushed the bill up from £5bn to over £7bn. Even though Eurotunnel has some £6bn of financing – £1bn of its own money and £5bn of bank loans – which is enough to keep it going for several years, the loan agreement with its banks says it must at all times have enough money to pay the entire expected cost. So it was forced to announce plans to raise up to £1.5bn more, a quarter of it from the shareholders and the rest in new bank loans.

Since then, Eurotunnel's management under co-chairmen Mr Alastair Morton and Mr André Bénard have been engaged in tough negotiations with Transmanche Link (TML), the 10-company constructing consortium, to come up with a tighter budget to satisfy the more than 200 banks who are putting up the money. The deadline is tomorrow when the lead banks which are managing the lending consortium are due to meet. Unless they agree to re-open their credit lines, Eurotunnel will run out of money by the end of this month.

The sticking point in the talks – which has created bitter divisions between Eurotunnel and the contractors – has been over who is to blame for the cost overruns, over and above those which were caused by the big changes that have been made in the original plans. Eurotunnel blamed the inefficiency of the contractors, particularly on the British side where progress has been lagging, but they in turn accused Eurotunnel of changing the specifications.

The battle seemed to be resolved largely in Eurotunnel's favour in mid-December when the Maître d'Oeuvre, the project's independent engineering consultant, produced a report which broadly supported the Eurotunnel management position. But even that did not open the way to agreement. Just before Christmas, Eurotunnel's bankers were alarmed to learn at a meeting in Paris that Transmanche was not willing, as they had been led to believe, to put a cap on costs. So the haggling had to go on.

There are three categories of costs:

● The "lump sum" costs for large construction works, such as the terminal buildings and the railway. Under the terms of the contract, Transmanche gets a lump sum for this work and bears any overruns itself. But these costs have risen from £1.14bn to £1.86bn. Eurotunnel accepts responsibility for part of the increase because of changes it ordered itself. But some £380m is still disputed and will probably have to go to arbitration.

● The "target costs" which include the tunnelling work. The contractors originally agreed to bear 30 per cent of any overruns, but up to a limit of 6 per cent of the total cost. Eurotunnel wants to remove this limit so that the contractors bear their full share of the overruns. This is the toughest area of negotiation, and Transmanche wants cast iron commitments on cost containment from Eurotunnel before it will agree to relax the limit.

● The procurement costs for rolling stock and other equipment. These costs have more than doubled to £600m and are paid for directly by Eurotunnel. But the contractors get a fee based on a percentage of what is spent, and their fees have soared in parallel with the costs. They will probably agree to cap this windfall.

While these specific areas are being fought over, the two sides have also been trying to find cost savings for the project as a whole. This has created further tensions between Eurotunnel and Transmanche because of their fundamentally conflicting interests. The company wants the best possible tunnel for its money, the contractors want to build it as cheaply as they can so as to maximise their profits.

"We want a Mercedes, they want a Ford," says Mr Morton.

For example, Eurotunnel has ordered top quality, heavy steel for the rails. It could save £10m-£15m by switching to lighter rails, but that might only lead to heavier maintenance costs later in the tunnel's life. In other words, the contractors' savings on overruns would be transformed into higher costs for Eurotunnel – which Eurotunnel thinks is unfair. But Transmanche believes that the costs can be reduced substantially without affecting the viability of the project.

The two have agreed to reduce the maximum speed for trains in the tunnel from 100mph to 80mph which will result in savings of £110m in rolling stock, signalling and track costs. But would that reduce the tunnel's throughput capacity and therefore its revenues? Both Transmanche and Eurotunnel claim the changes in the timetable would amount to only one minute per train, with only negligible impact on profits. A further saving lies in the decision to allow passengers to stay in their cars rather than having them sit in special carriages. The French have even agreed to postpone building a £10m grand arch over their terminal, described by one contractor as "a wonderful piece of architecture, but not an essential part of the terminal."

In order to secure the contractors' agreement on costs, Eurotunnel may also have to concede a slightly later completion date – currently targeted for June 15 1993. Although the contractors would not incur penalties until two months after this date, they want an additional two months built into the contract. In practice, this may not mean that the tunnel itself will be completed later – only that it will be easier for the the contractors to earn bonuses for early completion.

The package that finally emerges from all the negotiating is bound to be enormously complicated. And in some respects it has suited many of those involved to have it surrounded by an air of crisis – it has lent urgency, and helped people cut through the tangled political and financial web. But the main question is whether it will be bankable.

Although the banks will be looking at the numbers, they will also be probing behind them to be sure that they will stick. "The British are well-known for muddling through, but this is a case where the muddling through has gone on for too long," said a Continental banker.

Generally, bankers seem cautiously optimistic that some kind of deal can be struck. Among the major lenders, the French banks are notably relaxed, probably because they have more experience than most in funding large projects. The British are also inclined to take a positive view, if only for national reasons. But there were also signs last week that the Japanese and the Germans, who between them have the largest potential exposures, were also coming round. Deutsche Bank, whose support is crucial because many other Continental banks will follow its lead, wants the tunnel to go ahead because of its importance to European integration, and other projects in which Deutsche has an interest.

In particular, the lead banks seem to have faith in Mr Morton and they have tried to support him in his battles with Transmanche. If anything, Mr Morton is emerging with his position strengthened despite frequent rumours of his imminent ousting. "He's a tough guy who puts people's backs up. But it's a job that need a tough guy, and it would be a great mistake if he were to go," says Mr Jon Foulds, one of the independent directors. Another director said the whole board was strongly behind Mr Morton. But Transmanche may still press for other management changes to complement the changes it made in its own top personnel last year.

Refinancing Eurotunnel will not be a simple matter. Even if the two dozen lead banks do agree this week, they will still have to get a two thirds vote from the remaining banks simply to re-open the blocked credit lines. Separate talks will then have to start on Eurotunnel's new £1.5bn financial package. The details of that would probably be announced in April, and a rights issue made in the second half of the year.

All the uncertainty has provided Eurotunnel's shareholders with a rough ride in recent months, and has delayed by possibly three years the moment when they can look forward to their first dividend. The shares, issued in 1987 at 350p, have ridden a roller coaster between 1172p and 376p over the last 12 months, though they have strengthened considerably in recent weeks on expectations of a new financial deal, rising 78p last week alone.

The market is probably right to take a bullish view. All the indications this weekend were that agreement is within reach – but on terms that will make all the parties to the project sweat that much harder. And with three and a half years still to go this will almost certainly not be the last of Eurotunnel's crises.

Will Dawkins in Paris contributed to this article

LOMBARD

The Old Lady's next Governor

By Samuel Brittan

IT IS PRECISELY because the need to appoint a new Governor of the Bank of England is not imminent that it is important to take a long, cool look at the job specification. The term of the present Governor, Mr Robin Leigh-Pemberton, does not expire until 1993. If he stays the course, his successor would not be appointed (or more realistically, confirmed), before the next election.

It is this breathing space which enables the issues to be discussed now without becoming obsessed by personalities. Nearer the time the issue will be posed in terms of "What have you got against X?" Or, "Why do you like Y?" And no disclaimer will be of any avail. We can focus now on the type of qualifications required to run the Bank of England after the magic year 1992, when both the Common Internal Market and Delors Stage One should have arrived.

The essential background is that there is a trend towards greater independence for central banks, and that monetary policy is going to loom larger in the Bank of England's responsibilities after years in which the Treasury has been in the lead. Mrs Thatcher may have characteristically rejected Nigel Lawson's plan for an independent Bank, and John Major may be happy not to re-open the issue. But life itself has a momentum which is difficult for politicians to veto.

The greatest impulse towards more authority and independence for central banks has of course come from the European Community. This is not some distant vision. The President of the Bundesbank, Karl Otto Pöhl, has just been appointed chairman of the Committee of Governors of the EC Central Banks for three years, in place of the previous one-year term. He has already started a drive towards compatible domestic monetary targets. The planning is to start here and now, in 1990. If the British Government means what is says in seeking an evolutionary alternative to the Delors blueprint, it will back the Pöhl initiative for all it is worth. For it is far and away the likeliest route by which permanently fixed exchange rates and interchangeable currencies could emerge from existing institutions.

If the evolutionary approach is to work, central bank governors will be increasingly in the driving seat, whether they nominally have to refer to their governments for final approval or not. Moreover, when decisions are made by a dozen or more central bankers together, it is not feasible for each one to have the extensive consultation with a network of advisers and experts that he can have when taking purely national decisions.

The last thing that I am urging is a British Governor who would accept automatically what Mr Pöhl says. Many countries have not been successful in finding monetary aggregates suitable for inflation control and have preferred to target the exchange rate instead. For these non-anchor countries the relevant question may be: what kind of monetary policy will best entrench the chosen EMS parity? These are examples of the kind of subject which the next Bank of England Governor will need to have at his finger tips.

What this all adds up to is the need for someone thoroughly at home with economic and monetary issues to which he will make his own distinctive contribution. All the City gossip, which is canvassing the merits of various merchant bankers and lawyers turned financiers, is just "not with it."

Such financial statesmen may be well suited to regulation or to fostering the City's image. But they do not meet the bill for a world in which monetary policy is the main instrument both for avoiding inflation and for removing exchange rate barriers to European unity. These tasks require someone more at home in political economy.

I am certainly not going to spoil anyone's chances by putting candidates forward. It is no news that Eddie George, who has just been appointed Deputy Governor, has some of the qualities. But it is important that there should be a choice and that those who want a qualified person for the job should be able to select from a reasonable field.

LETTERS

Bulgaria waits for genuine reforms

From King Simeon of Bulgaria.

Sir, In the light of the recent political changes in Bulgaria, I wish to compliment the Financial Times and particularly Ms Judy Dempsey, your correspondent in Sofia, for her unusually acute articles, written much before the encouraging reforms began.

It is my hope that Ms Dempsey will soon report genuine improvements for my people, such as freedom of the press and equal rights for all political parties, including the Communist party. Only then would the allegedly free elections – hurriedly and possibly deceptively conceded by the present Bulgarian Government – be credible in the eyes of the world. Short of this, I'm afraid, reforms will remain cosmetic and their ensuing consequences ominous.

Simeon,
Apartado de Correos 3155,
28080 Madrid,
Spain

Personal injury compensation

From Mr Eric Hammond.

Sir, I noted with interest the article on the FT's employment page (January 5) on the details of the amount of compensation retrieved by trade unions in personal injury cases.

The source of your information did not, however, include our own figures which I thought you might be interested in publishing in the interests of accuracy.

The Electrical, Electronic, Telecommunication & Plumbing Union retrieved for members in 1989 a total sum of £6.3m from 3,180 cases. This means that our figure of £1,981 retrieved per case is the highest of all the unions with a membership of over 250,000.

Eric Hammond,
EETPU,
Hayes Court,
West Common Road,
Bromley, Kent

Animal life, plant life

From Mr John Duffield.

Sir, David Sawers (Letters, January 4) writes that "vegetarians believe humans need to face the moral issue of whether it is . . . wrong to eat other species of animal." Vegetarians should first straighten out their own moral issues. Is it right to kill a rat that is eating their grain? If so, how far down the evolutionary scale can we go? How about a locust?

For that matter, what is the difference in principle between plant life and animal life such that eating the one is morally superior to eating the other? If killing animals is wrong, many humans will die of starvation. I do not see why it is better that humans die than cows. If killing animals is morally sound, I do not see why it is wrong to eat a dead cow but right to eat a dead ear of wheat.

John Duffield,
64 Spring Grove,
Loughton, Essex

Local government finance

From Mr Hugh Jones.

Sir, I would like to comment on one aspect of the reforms of local government finance on which I have yet to see a proper discussion.

At present the business rate is determined by the local council and all the proceeds go directly to that council. A council wishing to encourage business activity has a range of policy options, such as a low rates policy, a generally permissive commercial planning regime and specific economic development initiatives.

Although businesses have no vote, a council does have incentives to pursue a policy which encourages business development. The main direct incentive is that a growing commercial sector will increase the council's rate base, providing greater resources to the council. The electoral incentive is that this allows the council to spend more on services or else to keep the rate level down.

Under the new system of community charge and unified business rate, both the level of the business rate and the proceeds received by the council are determined by the Government. There would appear to be no obvious incentive for councils to seek to encourage local business activity. It is difficult to see what direct benefit will accrue to a council which promotes commercial expansion.

How enthusiastic will councils be to use, and spend money under these new powers when there is little obvious benefit to the council? The cost will become a direct charge on the community chargepayers, that is, the voters. Will the chargepayers or will councils, when considering the perception of their voters, recognise or appreciate any benefit from increased business activity?

Consider the future of planning policies and decisions. New commercial developments often raise the concern of local residents worried about noise, pollution and traffic. Naturally, councils pay close attention to the views of residents since they are the visible voters. However, at present there are balancing factors in terms of financial benefits which can accrue to the electorate at large: lower rates for domestic ratepayers, more spending on services for non-ratepayers. But what direct benefits will be received by community chargepayers from more business? Local chargepayers, if the philosophy of community charge works as intended, will expect their council to be more accountable and responsive to their wishes. If they do not like the new industrial unit to be built down their road, they will expect the council to refuse it. The council will be left with fewer convincing arguments as to why it may benefit the local community.

Councils may become less "business-friendly" as they seek to pander to the more direct demands of their chargepayers and voters under the new local government finance systems. Will councils find themselves more often wielding the powers of prohibition on behalf of their chargepayers then positively promoting a prosperous business environment?

Hugh Jones,
London Borough of Lambeth,
Members' Room,
Town Hall,
Brixton Hill, SW2

Greening of the Thai national convention centre site

From Mr Nibhat Bhukkanasut.

Sir, I wish to protest strongly at the inaccuracies in Observer's report (November 2, 1989) on the construction of a national convention centre in Bangkok.

The site on which the centre will be built is now the rubbish tip used by the Thai Tobacco Monopoly and is not "one of the few patches of open greenery left in the city centre." The site will, however, become green. A water park and gardens are to be developed on an adjacent area and opened to the public once the project is completed.

The Thai Minister of Finance did not propose the construction of the national convention centre to host the IBRD/IMF annual meetings in 1991. He proposed that the Bangkok Convention Centre be rented and renovated with certain subsidies. The Cabinet thought it more prudent to build a national convention centre to combine the requirements of the Ministry of Commerce for trade exhibition space with those of the tourism authorities and private sector for convention facilities. If the centre is ready in time it could also be used for the IBRD/IMF annual meetings.

The design and construction of the national convention centre will be supervised by a Cabinet-appointed committee composed of all relevant ministries and chaired by the Minister of Finance. It will be the committee's responsibility to ensure timely implementation. Procurement will be subject to competitive bidding, but accelerated. The architect and construction consultant were selected by the committee according to the criteria of competence and experience. Design 103 had a record of unquestioned integrity. The company did not propose itself; it was asked to assist in this national effort.

As host of the 1991 annual meetings, as endorsed by the IBRD and IMF boards of directors, Thailand has a proud record of achievement – not the least of which is fiscal and monetary integrity. We hope Observer's allegations will not be repeated.

Nibhat Bhukkanasut,
Deputy Permanent Secretary for Finance,
Ministry of Finance,
Rama VI Road,
Bangkok,
Thailand

FINANCIAL TIMES
Monday January 8 1990

Anatole Kaletsky on Wall Street

Investors see gloom in a boom

DESPITE the rollicking start to the year on Wall Street, as the Dow Jones Industrial Average broke through the 2,800 mark and hit its highest-ever level on the first trading day of the new decade, the general mood among US investors remains surprisingly gloomy.

Sentiment surveys and options trading patterns reveal that unusually large numbers of investors currently expect a price correction at least in the short term. Curiously enough, however, it is the technical analysts who are most pessimistic, while the "fundamentalists" who study corporate earnings and the economic outlook generally see a rosy future ahead.

At first sight this seems strange, since the flagging profitability of many US companies will come into relief again next week, as the fourth quarter results season begins. But many fundamental investors seem to believe the profits squeeze to be "old news," which the market has thoroughly discounted already. Unfortunately, this may be untrue.

The clearest evidence for this comes from the year-end review published last week by the Institutional Brokers Estimate System (IBES), compiled by Lynch Jones & Ryan, a Wall Street research boutique.

To judge by the latest IBES forecasts, the widespread caution about the coming year on Wall Street is little more than a pretense. In fact, analysts seem to believe that the Fed has all but completed the hoped-for "soft landing" and that a takeoff into a period of accelerating economic growth and rapidly rising profits is in sight.

Consider the IBES earnings forecasts for the Standard & Poors 500. With a few weeks to go before the final quarter's results are in, the IBES consensus shows earnings per share, excluding extraordinary items, of $25.34. This would be 9.1 per cent lower than the forecasts produced by the same industry analysts a year earlier. But they indicate that last year could hardly be described as a serious disappointment in terms of corporate profits.

The S&P 500 earnings now estimated are only 1.4 per cent below the level actually recorded in 1988.

Considering that earnings in 1988 grew by a spectacular 40 per cent, such a mild consolidation could hardly be termed a serious setback.

In fact, the industry analysts' latest estimates of 1989 S&P earnings are actually slightly ahead of the average forecast of $24.91 produced a year ago by "market strategists," who use macroeconomic models in their analyses, rather than following individual companies' results.

But what is most striking about the IBES forecasts is not the relatively sanguine picture they present of the supposedly grim year which has just passed. Far more significant is the improving outlook for the year ahead, according to the IBES consensus.

In 1990, industry analysts foresee a 15.4 per cent jump in S&P 500 earnings and even the perennially sceptical market strategists see a 3.3 per cent advance.

What all these figures strongly imply is that the worst is over for corporate profits, at least as far as Wall Street is concerned, a view borne out by Mr Rick Pucci, the Lynch Jones & Ryan analyst who puts together the IBES forecasts.

After the big earnings disappointments of the third quarter of 1989, the last quarter of 1989 is expected to reveal a slight increase in average earnings, largely due to extraordinary items. This should be followed by a 10 per cent year-on-year decline in the first quarter of 1990 and a modest 2 per cent drop in the second quarter of this year. The earnings comparisons should then become positive.

Since the stock market is a discounting mechanism "we could begin to see the light at the end of the tunnel some time in the first quarter of 1990 as market participants begin to anticipate improving earnings momentum," Mr Pucci concludes.

In other words, the much discussed "recession" in corporate profits is already almost over, if Wall Street analysts are right in their forecasts.

That may sound like good news. But, as Mr Pucci adds, the current conventional wisdom also leaves more room for disappointment than many investors imagine. "As we move through the nadir of earnings comparisons, I can foresee a fear developing that could grab investors by the lapels and give them a good shake."

EMPIRE COULD GO TO 28-YEAR-OLD TEXAN

Bond 'ready to sell personal stake'

By Louise Kehoe in San Francisco

MR ALAN BOND, the Australian businessman, plans to retire from his financially beleaguered corporate empire and sell his personal holdings, according to the chairman of a "very private" Los Angeles investment group which emerged last week as a mystery bidder for control of the Bond companies.

Since last October, Mr Bond has personally been involved in secret negotiations, says Mr Jeff Reynolds, 28, chairman of Weatherby Investments which has announced its intent to acquire a controlling interest in Bond Corporation, Mr Bond's flagship company, for A$250m ($198m).

According to Mr Reynolds, who claims to have completed "at least one $100m deal per year for the past five," his contact with Mr Bond came about almost by chance.

"We hit it off real well," says Mr Reynolds, a Texan. "I was real intimidated. I expected him to be a big tiger, but he is easy to get along with – one of the nicest people I've had the pleasure of doing business with. We haven't had any conflicts."

Growing financial pressure on Bond Corporation apparently forced disclosure of the acquisition plans. "I hate publicity. I wanted to do this whole thing quietly," complains Mr Reynolds.

"We decided to talk directly, rather than bringing in investment bankers and lawyers, because that costs money and, lets face it, Bond needs the cash," says Mr Reynolds.

The trans-Pacific link between Bond and this young Los Angeles entrepreneur was apparently established by a former Singapore Member of Parliament, Dr (Henry) Chew Chin Han, now managing director of Weatherby's parent company, California Pacific International Holdings of Singapore.

Mr Reynolds, who is also chairman of CPI, describes it as a private company with net worth of more than $1bn and interests in oil, gas and minerals. "We don't talk much about CPI," he stressed, "but we are growing fast and we want to diversify into financial services and steel."

Originally, the talks focused on the sale of the Bond family's 54 per cent stake in Bond Corporation, said Mr Reynolds. Recently, however, the tentative deal has been restructured to involve a private placement of newly issued shares in the company.

Nonetheless, according to Mr Reynolds, Dallhold, the Bond family holding company, would retain only a minority stake in the Bond corporate empire. He says: "As it is set up right now, Dallhold would gradually reduce its stake over a period of time," if the deal goes through.

Mr Bond himself would no longer play a formal role in the company, said Mr Reynolds. "I would like to see him stay, but the media and predators won't let that happen."

The proposed investment by Weatherby comes at a critical time when Bond is struggling to fend off creditors in both Australia and the US.

Yet with cash from the sale of Bond subsidiaries plus the A$250m infusion from Weatherby, as well as new debt financing, the Bond group could be turned into a "cash cow," Mr Reynolds confidently predicts. "If we can get the co-operation of the bank lenders it will not take a lot to make this happen," he adds.

"We see tremendous opportunity in the group. After reviewing the financial data we are convinced that the core businesses are very solid. The only problem Bond has is high interest short-term debt. Alan never got around to dealing with it... it was always pending."

Weatherby aims to restructure the majority of Bond's troubled debt through a combination of equity and debt placements and by spinning off subsidiaries to concentrate on its core brewing, media and natural resource businesses.

"There are 670 subsidiaries in the Bond group," Mr Reynolds points out. "A lot of them are not reflected in the balance sheets. These are $50m to $100m companies. We'll be looking for somebody to pick them up, and take care of them – not liquidate them," says Mr Reynolds.

Meanwhile, in Sydney, Bond Corporation said it would start legal action against the Western Australian State Government Insurance Commission (SGIC), which failed last week in its attempt to get a court order to put the company into liquidation, writes **Our Financial Staff**.

Mr Peter Lucas, a Bond Corporation director, said on Australian television: "We'll be commencing proceedings against them (the SGIC) in the early part of the week."

He added that efforts by Bond Corporation to persuade US debenture holders and their trustee not to demand immediate payment of a US$510m note issue had so far been inconclusive.

Major may modify UK monetary policy

By Simon Holberton, Economics Staff, in London

MR JOHN MAJOR, Britain's Chancellor of the Exchequer, is under increasing pressure to consider changes in the operation of monetary policy as part of his preparations for his first budget statement.

The first sign of the possible change is the Bank of England's decision to cancel plans to hold a New Year reverse auction of gilt-edged stock.

The auction's cancellation is likely to fuel speculation in the City of London about the Chancellor's plans for monetary policy in the financial year from April, especially the way the Government deals with the monetary consequences of its Budget surplus.

Mr Major, his Treasury ministers and senior officials will gather this coming weekend at Chevening, the Foreign Secretary's country house, for their first detailed examination of Treasury economic forecasts and taxation options for the 1990-91 Budget.

They will meet in a mood less sanguine than the one recently developed in London's financial markets. The Treasury believes the markets "over welcomed" November's trade report which showed the monthly current account deficit had declined to £1.4bn ($2.3bn).

Treasury ministers are not overly comforted by independent forecasts of the UK economy which show it growing by 1.5 per cent this year. This rate might be too strong to allow interest rates to deliver the hoped for cut in inflation and to the current account deficit.

Mr Major is said to believe that policy will deliver the shock the economy needs, but some Treasury officials are not convinced that 15 per cent bank base rates will dampen the economy sufficiently.

Continuing uncertainty about the economic outlook for the UK may imply a budget that gives little back to the taxpayer by way of cuts in taxation.

The Treasury points out that the full effect of last year's reforms to National Insurance contributions will be worth more than £2bn in 1990-91.

Bank of England and Treasury officials sought to play down the significance of the cancelled reverse gilt auction. They said reverse auctions would remain available to the Bank to buy back Government stocks.

Reverse auctions are a public offer by the Bank to buy back Government stocks. This allows the Bank to replace money drawn out of the money market by the Government raising more in taxation than it spends.

But the Government's policy for counteracting the effects of its Budget surplus on UK financial markets was recently severely criticised by the influential all-party Commons Treasury and Civil Service Committee.

In its report, published last month, on the Autumn Statement, the committee recommended the Government should change the current guidelines for managing the national debt. It said the Treasury should drop its aim of attempting to neutralise its debt buy-back operations so that they would neither expand nor contract the money supply.

The committee has some allies in the Treasury who believe that the repeatedly modified funding policy lacks coherence. Mr Major, who has come to the Treasury with few prejudices, will want to know why he should not take the committee's advice.

UK Gilts, Page 18

THE LEX COLUMN

The staying power of equities

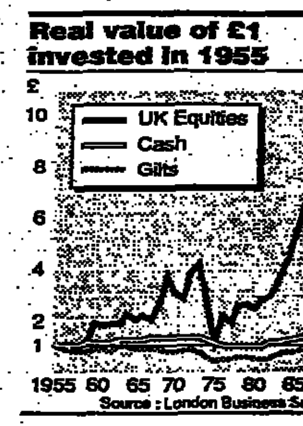
There is nothing like the long view for a sense of proportion. After the remarkable strength of the UK market last year, it is natural at least to consider switching out of equities. But as the latest figures from the London Business School remind us, the long-term investor would be crazy to invest in anything else. After inflation, £1 put into equities at the start of 1955 – with dividends reinvested – would have been worth £10.40 by the end of 1989. Cash – as represented by Treasury Bills – would have been worth £1.60, gilts a wretched £1.10.

On closer inspection, it is not even clear that last year's equity performance was that exceptional. The total return on the FT All-Share, 35.6 per cent, was below the best levels seen in the 1950s and has been surpassed in six out of the past 35 years. The average return in the second half of the 1980s was 20 per cent; in the first half 28 per cent; and in the second half of the 1970s, 36 per cent.

Statistical analysis also elicits the intriguing fact that there is no tendency for a good year in equities to be followed by a bad one, or vice versa. In terms of pure probability, it follows that the likeliest single figure for this year's total return is the long-run average. At 9.6 percentage points over the prevailing interest rate, this gives a year-end level for the FT-SE of something over 2,900, well above most forecasts. But then, at any forecast level below 2,680 – and many analysts are going for less – equities should logically have been dumped already in favour of cash at 15 per cent.

Outside the pure world of probabilities, it is not easy to believe all this. The suspicion remains that the UK economy still has to suffer for past excesses on a scale not yet foreseen by the market. But the record shows that investors have systematically underestimated the power of equities in the past. Otherwise it is not easy to account for the existence of the gilt market at all.

Real value of £1 invested in 1955



Source : London Business School

UK bonds

Could the UK authorities do more to strengthen London's position as the major European capital market? It is a familiar refrain which will not go away, especially if Paris continues to develop at its current speed. The Matif, France's futures exchange, increased its lead over Liffe last year. Admittedly, Salomon Brothers' figures show that the $31.7bn of sterling debt issues in 1989 was more than six times the amount raised in France; but the liquidity of the French Government bond market has continued to improve, at a time when the UK bond markets have become increasingly fragmented.

At the moment, there is little difference between the size of trading that international investors can do in French and UK Government bonds. But the liquidity of the Paris market has improved substantially over the past few years and although the UK authorities have taken modest steps such as the experimental reverse auctions and consolidation of issues, the overall improvement in the UK has certainly not kept pace. For the increasing number of international investors who want to trade actively in and out of the major bond markets, this is a potential disincentive to doing business in London, especially since most of the new corporate issues replacing gilts are relatively illiquid.

Although the UK and French bond markets are of roughly similar size, the more liquid the market the lower the interest rates needed to attract investors. It has been estimated that France's issue of just a few highly liquid benchmark bonds has reduced official borrowing costs by half a point. Given that the UK Government has no need to tap the capital markets, it has less immediate interest in stimulating the liquidity in the UK debt markets.

Indeed, the absence of any official benchmark issues at the longer end of the gilt market may be one reason why the UK market is becoming relatively less attractive to international investors. Even if this is less of a disadvantage than it seems, the lack of reliable credit ratings in the sterling bond markets is often cited as another reason why big institutions are reluctant to substitute the same amount of new corporate debt for the gilts they sell to the Government.

But probably the biggest long-term obstacle the UK debt markets face relative to Paris is the way in which French liquidity has been increased through the ease with which big positions can be hedged by futures on the Matif. Last year, the volume of the French long term national bond contract increased by 21 per cent, while the long gilt contract on Liffe fell by 27 per cent to one third the size of its French competitor. Although the close and seemingly cosy relationship between the French authorities and the private sector is treated with distrust by some foreign investors, it has certainly helped stimulate the development of a more liquid French bond market. It may not matter to this UK Government, but the UK fixed interest market now faces a competitor which was not there five years ago.

Hambros-Baltica

It is not difficult, if you are that kind of person, to draw octopus-like charts of the cross-holdings and strategic stakes Europe's banks and insurers have accumulated in each other. It is often harder to see the practical value of this secret restructuring of European financial services, as Shearson Lehman describes the goings-on by such as France's Paribas and Suez.

A minor instance is the 12.3 percent stake in Hambros now held by Baltica, Denmark's largest insurer, rather to the bewilderment of Hambros. With 23 per cent of Baltica now owned by Suez, Baltica belongs to the club linking Suez, France's UAP, and Japan's Dai-Ichi Mutual. And Hambros has its own smaller coterie of friendly shareholders, such as Italy's San Paolo. How nice if Hambros let Baltica join that club and everybody started drumming up business for everyone else, as the Hambros club's members already do.

Nice, until one sees how little fit there is between them. A good move Baltica made was buying a Danish ambulance and fire-fighting service; good, but irrelevant to Hambros. A year after Baltica appeared as a Hambros shareholder, it seems no scope for co-operation has emerged. So what does Baltica do? Presumably look for another buyer for its 12.3 per cent. The game goes on; but some of it is very different from what the layman on the Düsseldorf omnibus thinks 1992 is all about.

Romanians honour their uprising's dead and demonstrate their belief that Communism equals Nazism. Electoral law, Page 2

UK restarts talks on Hong Kong's future

By Ralph Atkins in London and John Elliott in Hong Kong

BRITAIN yesterday confirmed that senior officials had visited China last month in preparation for an intense bout of international diplomacy concerning Hong Kong's future.

Sir Percy Cradock, the Prime Minister's foreign affairs adviser, went to Peking early in December - at least a week before Mr Douglas Hurd, the Foreign Secretary, outlined plans for giving British passports to 225,000 citizens of Hong Kong. He was accompanied by an unnamed senior Foreign Office official.

The trip was intended to help restore relations between China and Britain. The issue of passports to Hong Kong residents is thought to have been discussed but officials yesterday emphasised that there would have been no detailed negotiations.

Confirmation of the visit increased the surprise about a blunt attack which China launched just over a week ago against Britain's passports plan.

Peking officials are thought to be anxious about what they see as British attempts to undermine China's sovereignty when it takes over the colony in 1997.

Later this week, Sir David Wilson, the colony's governor, starts his first visit to Peking since China's Tiananmen Square crisis in June. A draft of a proposed Hong Kong Bill of Rights is likely to be published on Friday.

On Saturday Mr Hurd pays his first visit to the colony since taking over his present job.

Meanwhile, when the House of Commons resumes today the Government will come under renewed pressure to back down on its passport plans. Many MPs say they will oppose any legislation relaxing immigration rules.

Speaking on television, Mr Norman Tebbit, one of the leading Conservative Party dissidents, said yesterday: "We have to go back to the fact that this Government did pledge that there would be no further large-scale immigration."

The Opposition Labour Party has said it will oppose the passports plans because of the criteria used to decide which citizens will be eligible.

Sir Percy's visit is believed to have been timed to help prepare for planned trips by the Hong Kong Governor and Mr Hurd. For this reason, there were no complaints in Hong Kong last night about the visit, which was seen as a necessary step in restoring normal relations between the UK and China.

Although there is continuing condemnation of the Tiananmen Square crisis, the general view in Hong Kong is that diplomatic bickering should end so that preparation can continue for 1997.

China accuses Paris group of sabotage, Page 4

Lira realignment

Continued from Page 1

for the lira against other currencies in the European Monetary System are expected to be announced early this morning.

Mr Giles Keating, of Crédit Suisse First Boston, praised Italy for combining devaluation with a narrowing of the fluctuation range. It gave Italy "a chance to regain a little lost competitiveness while retaining monetary credibility."

The move to a narrow band for the lira was also seen as putting increased pressure on Britain to join the exchange rate mechanism.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	12	54	Dubrovnik	S	11	52	Malta	S	14	57	Rhodes	S	13	55
Algiers	S	17	63	Edinburgh	C	8	46	Manchester	R	5	41	Rio de J'o	F	36	97
Amsterdam	F	8	46	Faro	F	16	61	Manila	C	30	86	Rome	R	6	43
Athens	C	7	45	Florence	C	7	45	Melbourne	C	19	66	Salzburg	S	-3	27
Bahrain	S	20	68	Frankfurt	C	1	34	Mexico City	–	–	–	San Francisco	C	10	50
Bangkok	F	33	91	Funchal	C	16	61	Miami	S	22	72	Seoul	S	2	36
Barcelona	R	8	46	Geneva	C	2	36	Milan	Fg	-2	28	Singapore	–	–	–
Beirut	–	–	–	Gibraltar	S	16	61	Montreal	C	-10	14	Stockholm	Sn	0	32
Belfast	C	8	46	Glasgow	F	8	46	Moscow	C	-4	25	Strasbourg	C	3	37
Belgrade	Sn	-8	18	Guernsey	S	9	48	Munich	C	-5	23	Sydney	C	22	72
Berlin	C	-3	27	Helsinki	C	1	34	Nairobi	F	24	75	Taipei	R	18	64
Biarritz	R	9	48	H. Kong	S	19	66	Naples	S	12	54	Tangier	S	16	61
Bombay	S	31	88	Innsbruck	S	-1	30	Nassau	F	29	84	Tel Aviv	F	13	55
Bordeaux	C	11	52	Inverness	R	8	46	New Delhi	S	17	63	Tenerife	S	20	68
Brussels	C	7	45	Islamabad	C	15	59	New York	S	-1	30	Tokyo	S	8	46
Budapest	Fg	-9	16	Istanbul	F	3	37	Nice	S	13	55	Toronto	C	-2	28
B Aires	F	34	93	Jakarta	R	29	84	Nicosia	S	14	57	Tunis	S	14	57
Cairo	S	19	66	Jersey	S	9	48	Oporto	S	10	50	Valencia	F	13	55
Cape Town	S	21	70	Jo'burg	F	27	81	Oslo	C	2	36	Venice	S	2	36
Caracas	C	25	77	Lima	F	25	77	Paris	C	4	39	Vienna	C	-7	19
Casablanca	C	17	63	Lisbon	S	13	55	Peking	F	0	32	Warsaw	S	1	34
Chicago	S	-2	28	London	F	7	45	Prague	S	-9	16	Washington	S	-2	28
Cologne	F	4	39	Los Angeles	S	8	46	Reykjavik	F	2	36	Zurich	C	1	34
Copenhagen	R	1	34	Luxembourg	C	0	32								
Corfu	S	12	54	Madrid	F	8	46								
Dallas	S	2	36	Majorca	R	14	57								
Dublin	F	11	52	Malaga	S	15	59								

Readings at mid-day yesterday
C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Airbus to stay at Toulouse

Continued from Page 1

replace Mr Robert Smith, a former BAe executive, who resigned last month barely eight months after being seconded by BAe to the European group.

Mr Smith's resignation, like the dispute over Airbus assembly, has been a blow to the European consortium at a time when it has been seeking to transform its recent marketing successes into financial success.

However, Mr Richard Evans, BAe's new chief executive, sought to play down the recent difficulties at the European consortium claiming they were "inevitable" in a relatively new business like Airbus. He suggested that the problems of Airbus would diminish as the partnership matured.

Mr Evans, who took over from Sir Raymond Lygo as BAe chief executive last week, said Airbus and commercial aircraft operations would become increasingly significant for BAe. He said Airbus was likely to become one of Europe's biggest companies, "if not the biggest."

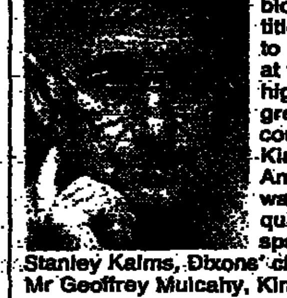
FINANCIAL TIMES
COMPANIES & MARKETS
© FINANCIAL TIMES 1990
Monday January 8 1990

INSIDE

Go East young man — but tread carefully

Thinking of investing in eastern Europe? Why not? If the Soviet Union is included it is potentially a larger market than the European Community, crying out for good quality consumer goods. Moreover, among its companies lie many gems which could easily be made competitive with a little Western management and technological expertise. Before you dust off your phrase book and set off for lands beyond the Berlin Wall, however, it may be worth considering some of the possible pitfalls of setting up joint-ventures in the East. Charles Leadbeater reports. Page 30

Ornithological lines of defence



Kingfisher or pelican? A bid too far. Such was the title of a document sent to Dixons shareholders at the weekend, as the high street electricals group launched a fierce counter attack against Kingfisher's £568m bid. And the written word was followed by an quick bout of verbal sparring between Mr Stanley Kalms, Dixons' chairman (above) and Mr Geoffrey Mulcahy, Kingfisher's chief executive. Page 19

Big boot for Granada sales

In a bid to improve its lacklustre performance in Western Europe's thriving executive car market. Ford will today add saloon versions to its Scorpio/Granada range. It has chosen the Brussels motor show to launch a 'three-box' model. The original Scorpio/Granada vehicles were hatchbacks and have struggled for four years in a market where — by Ford's own admission — seven out of ten buyers prefer saloons, considering hatchbacks to be 'down-market'. Page 17

Market Statistics

Companies in this section

Secret game of family fortunes

Haig Simonian looks at the financial affairs of the Thurn and Taxis clan

West German journalists flocking to a baroque castle in Regensburg in Bavaria later this week are in for a disappointment. The unprecedented meeting at the ancestral home of the Thurn und Taxis family will reveal no secrets about the size of the family's fortune and say nothing spectacular about its plans.

Despite the dearth of disclosures on January 10, the Thurn und Taxis clan remains fascinating to more than just the German gutter press, which dotes on the latest antics of Prince Johannes, 63, the current heir, and his young wife Gloria, 29.

For German financiers in particular, Thurn und Taxis affairs are of more sober interest. Among the family treasures is a 5 to 10 per cent stake in Bayerische Vereinsbank, Germany's fifth biggest financial institution, and a growing network of financial services activities centred on the Munich-based Thurn und Taxis Bank, one of Germany's most prestigious private banks.

The family, which is meeting the press to mark the 500th anniversary of the European postal monopoly it enjoyed until 1867, never reveals the size of its wealth. However, Forbes magazine values it at some $3bn, while Fortune picks a more conservative $2.5bn.

Mr Helge Petersen, the ex-McKinsey consultant who became chief executive of the five-man team managing the fortune in January 1987, maintains the tradition of silence. "If it's printed, it must be right" is his sarcastic reply to the estimates. "Let's just say it's one of the largest fortunes owned by one individual in Germany," he notes.

Financial services are just part of the total, which includes forests, commercial property, brewing and industrial interests. With some 26,000 hectares of forest, the prince is West Germany's largest private landowner. Domestic woodland has been supplemented by a further 10,000 hectares in the US and Canada, as well as a 60,000 hectare farm in Brazil — big by even that country's standards.

In his three years in Regensburg, Mr Petersen, who previously worked for the extremely wealthy Quandt family, which owns a large slice of BMW, has already introduced a number of changes to the fortune designed to protect it from inheritance taxes and put its management on a more professional footing.

That has involved a "hierarchy of methods," including investment in property and the establishment of limited partnerships in financial services, both of which are aimed at lowering the inheritance tax burden.

Finding the right mix has not been easy. The fortune must avoid holding too much property — whatever the tax benefits — to avoid damaging profitability. And it should not establish so many limited partnerships as to harm transparency, Mr Petersen notes.

The task of protecting the inheritance has now been "largely fulfilled," and the basis of the fortune is now "much more solid to cough up the money and carry on its activities than when I came," he says. However, further assets will be steadily transferred to Prince Johannes's young son — his only male heir — over time.

Run like a German public company, with the prince as the sole member of the supervisory board, the changes to the fortune have involved a much more entrepreneurial approach to managing its property portfolio, notably with an increasing stress on commercial development, as well as a turnaround in its industrial interests, focused on Doduco, a medium-sized company which employs 3,000 people and had sales of DM600m last year.

But it is the financial services division which is generating the greatest interest at present. Run by Mr Rolf Levedag, a former senior executive at Deutsche Bank and Swiss Bank Corporation, financial affairs have been expanding rapidly. The aim is to capitalise on the Thurn und Taxis name as a magnet for a variety of banking services, geared mainly to high net worth individuals and private companies, explains Mr Levedag.

Central to the plans is the Thurn und Taxis Bank. Bought by the family in 1920, it now has total assets of some DM900m and employs about 200 people. Despite the soundness of its name, Mr Levedag agrees that, although some progress has been made on reviving the once-sleepy bank, some work still needs to be done. And profits, which are never revealed, "could still be better," he admits.

The first steps have already been taken to build up a new network of financial services operations while committing the minimum amount of capital. The aim is to move away from general banking into more profitable niches, such as private banking, corporate business for medium-sized companies and trading and sales.

Joint ventures with experienced professionals lie at the heart of the formula. The changes started just over two years ago, when the Thurn und Taxis fortune bought IKV, a small Munich-based money and fixed-income securities trading operation. Since then, property broking, specialised fund management, leasing and consulting operations have joined the list, with a Zurich-based investment management boutique the latest addition. Although all the activities are run as independent entities, the Thurn und Taxis name provides a common link. All are small-scale, with the Thurn und Taxis side commonly taking 60 per cent control, and all are run as joint ventures with their senior managements.

Thurn und Taxis Vermögenstreuhand, the German fund management group, was set up in November 1988 after an approach from three former executives of the Munich-based Matuschka group. Likewise, Thurn und Taxis Leasing has its roots in an approach from GMS, a Munich leasing broker. The leasing operation, which now numbers 15 professionals following the arrival of a team from Chemco Leasing in Frankfurt, is set to grow substantially this year, with new offices in Frankfurt and Hamburg.

Prince and Princess von Thurn und Taxis with daughter Maria Theresia: more professional management of immense wealth

In time, links between the various European operations and Butcher & Co, the Philadelphia-based merchant bank in which the Thurn und Taxis fortune has a 47 per cent stake, could also be tightened, as could contacts with Wheat First Securities, the US regional stockbroker in which it has a 20 per cent interest.

However, Mr Petersen says he is now satisfied with the breadth of the financial services network, and the next aim is to increase the size of the individual units, rather than create any further operations.

However, futures and options trading could be the one exception. Negotiations are under way on a potential joint venture with "one of the most professional and committed futures and options groups in the world," to trade on the Deutsche Terminbörse (DTB), Germany's new financial futures and options exchange, hints Mr Petersen.

The capital commitment required to become a DTB clearer explains the interest in finding a partner on the Thurn und Taxis side. Meanwhile, working with the German group would overcome the need for the foreign company to obtain German status, a pre-requisite for clearing status on the DTB. Moreover, "they would like to liaise with us", Mr Petersen adds.

Only one piece of information remains absent — the name of the company concerned. It already trades 10 per cent of the volume in Bund contracts on the London International Financial Futures Exchange, Mr Petersen discloses. By Thurn und Taxis standards, even that is a revelation.

The US 1990: a year for hope deferred

By Anthony Harris in Washington

The New Year's celebration on Wall Street proved brief, and for good reason. The first post-holiday numbers came up a little stronger than market economists had forecast, and that was enough to set off a cash-driven market; but as usual, the morning after brought sobriety. By the end of the week, the Dow was up only a little, and the broader market indices were actually down.

This hangover was not brought on by bad news. One the contrary, the house sales figures for November and the first reports from the retail trade were not only above expectation, but much more convincing evidence of underlying strength than the construction figures and the purchasing managers survey that had the corks popping on Tuesday. But the market did have time to reflect that month-to-month figures are currently even more unreliable than usual, while the long-term picture is not encouraging. For the short-term, consider these facts:

● The weather has been extraordinary, with an Indian summer up to Thanksgiving, followed by an Arctic December. This has distorted spending patterns, construction, and energy demand and prices.

● Real earnings — much the most important influence on spending — are down more than a full percentage point. The US is currently a nation of bargain-hunters; this has caused a jagged sales patterns, and depressed margins in retailing and in the motor industry.

● Two major natural disasters in the autumn have depressed manufacturing and farm output, but caused a blip in construction.

● Aircraft output and exports have been distorted by the Boeing strike. Aircraft orders remain the strongest forward indicator, but airlines are doing poorly: so how firm is the order book?

Finding a trend amid all these distortions is pure guesswork; but meanwhile, there are already some known facts about 1990 which ought to restrain the bulls. Most notably, there are major inventory problems in the motor industry and in commercial building.

The car industry enters 1990 with nearly 30 days' surplus stock. Within the next few weeks, six out of every ten plants owned by the Big Three, employing 142,000 people, will be closed, some of them indefinitely. Even if 1990 sales match those of last year (which is more than the dealers expect), output will have to be cut by 8 per cent or so to get stocks under control.

Office building is in even worse shape. The national vacancy rate is now up to 18 per cent — the equivalent of Manhattan twice over — and is in double digits in all regions. This in getting near a notional Texas; the industry is planning to respond with an 8 per cent cut in activity. That looks modest. Housing demand is also soft, though it could be on a shelf for the time being; the sales rate has fallen a fifth since 1986, and builders, with six months' output unsold, are planning a 6 per cent cut in starts.

Cuts in these two industries alone will reduce GNP by about a full percentage point; add in defence cuts, a depressed computer industry, and the knock-on effects of building cuts in consumer durables, and the hole gets deepish. That takes no account of income effects of these cuts, which may possibly be offset by still rising incomes in the services, and especially health care.

It is hard, then, to echo the bulls in their hopes that "strong income growth" (all in the past) will keep the expansion going on its own. The best hopes probably lie where no-one is looking for them: net exports. Export growth is slowing, but in this picture imports will stagnate, and service imports (especially foreign travel) may fall. The Fed's modest target growth rate of 1.5 per cent may still be hard to meet, given that the fiscal year will probably start with negative numbers (not very negative) for the final quarter of 1989 and the first of 1990.

Of course, the Fed is still the last hope of the stern, unbending bulls; interest rates will be cut, they argue, if the current numbers are half as bad as we pessimists believe. Yes, but rates are now set internationally; and the great liberation of recent weeks, which will make 1989 one of the great historic years whatever happens to the growth curve, will surely increase the international demand for capital, and the international expected return on investment. This argues for higher, not lower international real interest rates.

There is a saving clause, though. A flat US economy need not compete quite so hard in the international market; and more important, the prospective Euro-boom which is driving up both interest rates and the D-mark will drive the dollar down. If this adjustment is not resisted (and last week the authorities actively encouraged it), and the 20 per cent rise in the trade-weighted dollar since its low point can be largely reversed, the picture will change radically.

In 1986 the fall in the dollar snuffed out a second-quarter recession and started a take-off in exports and manufacturing which lasted three years. If this can be achieved again without the aggressive monetary expansion of 1986, the US could be off on another leg of good growth by 1991. So I wish you a hopeful New Year, if not a happy one.

Economics Notebook

The practical needs of Poland

AS MANY a college student returning from vacation will discover, Poland has become the target of a mass migration of Western academic economists peddling patent remedies for the transformation of the Polish economy to a market-based structure.

But Poland has much greater need of practical specialists, as the Organisation for Economic Cooperation and Development makes clear in a thoughtful paper on the "Polish problematique."

The paper, prepared for high-level discussions this week between an OECD team and the Polish government in Warsaw, gives an insight into many nitty-gritty problems that have arisen in Poland through its 50-year isolation from the Western industrial world. For example:

● Poland has an urgent need to train bank supervisors if Polish banks are to have full autonomy to grant credit

● The country must establish coherent company accounts for managers to make informed decisions and banks to assess the credit-worthiness of borrowers.

● Poland also needs to set up employment offices to help displaced workers find jobs, particularly if there is any truth in reports that the International Monetary Fund believes a million Poles may be unemployed this year against the 400,000 estimated by the Polish government.

The serious environmental problems of Poland pose a particular difficulty. According to some Western estimates, one in 10 Polish children has suffered health damage from the heavy metal pollution.

The OECD can itself give some help. It has been at the forefront of research into the economics of environmental protection and has built up solid practical expertise from 20 years work on international environmental problems. The Paris-based group also has long experience in developing, harmonising and disseminating macro-economic and micro-economic statistics.

But how will Poland and the other nations of eastern Europe come to terms with the fact that economic conditions in these countries are likely to get much worse before they get better?

The OECD paper highlights one aspect of this dilemma in considering Poland's need for social security arrangements.

Given Poland's "serious economic situation and the need for rapid structural change", the OECD doubts whether the country could afford a complex system of social protection similar to those in many European Community countries.

IMF Wait

That nomadic band of central bank and finance ministry officials who deal with international economic issues will have to wait until the end of this week before they know whether the International Monetary Fund's policy making Interim Committee will meet in Washington this month.

The likely dates for a special meeting to settle the vexed issue of boosting the IMF's resources are January 25 and 26. The Fund's main members have come a lot closer to agreeing an increase in the IMF's quotas or membership subscriptions since Britain offered to drop in the rankings from two to four. The increases currently under discussion are thought to range between 47 per cent and 51 per cent.

Some officials say the problems could be settled by telephone. But related matters such as the access of Fund members to the increased quotas and the knotty problem of arrears to the Fund could still make a meeting necessary.

Too Frank

Oh to be a fly on the wall at this week's monthly meetings of Western central bank governors in the Basle-based Bank for International Settlements.

The West German Bundesbank's decision last Thursday to sell dollars caught other monetary authorities by surprise and has left high level officials in other central banks fuming.

The action, which was designed to return the D-mark to a strong upwards path, could spell further tension in the European Monetary System despite the weekend devaluation of the Italian lira. More irritating for many central bankers on both sides of the Atlantic was the apparent smugness of the West Germans after reversing the dollar's New Year rally at a cost of only $50m in West Germany's reserves.

A newsletter produced by Messrs David Smick and Richard Medley, two very well connected Washington-based commentators on international monetary affairs, has caused particular ire.

This quoted an unnamed Bundesbank official as saying: "Once again we've shown that there is only one European central bank that counts. And that's true both for interest rates and intervention policy. Notice that the Bank of England and Bank of Japan intervened all night to no effect. But when the Bundesbank stepped in the markets finally got the message."

This may be true. But in central banking, as elsewhere, some truths are best left unstated.

Peter Norman

THIS WEEK

High level meetings rather than statistical data will dominate this week's economic news, although Friday's release of US producer prices figures for December will give an important indicator of US inflationary trends.

Tomorrow's meeting of Comecon, the Soviet dominated trading group, takes on a special importance, with calls for its reform in the wake of the political liberalisation of eastern Europe.

Today in Warsaw a top level team of OECD economists starts three days of talks with the Polish government on how to reform the Polish economy. Also today, Mr Toshiki Kaifu, Japan's prime minister, begins an 10-day European tour that will include visits to Poland and Hungary as well as West Germany, France, Britain, Italy and the European Community's headquarters in Brussels.

In Basle, Switzerland, central bank governors from the group of 10 leading industrial nations meet today, and recent movements of the Deutschemark, the yen and dollar will be high on the agenda. Tomorrow, the committee of European Community governors gathers in Basle in the wake of the weekend devaluation of the lira in the EMS.

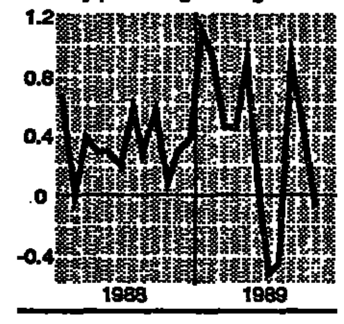
Wednesday marks an important point in West Germany's annual pay bargaining round. Formal talks begin on the claim of the I G Metall trade union for a 9 per cent pay rise with shorter working hours. Also on Wednesday, provisional West German GNP figures for 1989 are expected to show growth was around 4 per cent, the highest for 10 years.

Next weekend, Mr John Major, the British Chancellor, assembles with other Treasury ministers and a few top officials at Chevening, the country home of the Foreign Secretary, for a first review of options for the British Budget in March.

The Chevening weekend also marks the beginning of the quaint British institution of "pre-Budget Purdah" which obliges Treasury officials to avoid contact with outsiders such as journalists and lobbyists. One of Mr Major's last public appearances before the Budget will be on Wednesday when he chairs a meeting of the National Economic Development Council and discusses the economy with trades unionists and employers.

US producer prices

Monthly percentage change



The recent cold weather in the US is expected to have only a limited impact on Friday's producer prices figures. The consensus of analysts' forecasts compiled by MMS, the financial research company, is for a 0.4 per cent rise. The US December retail sales figures, also due on Friday, are expected to show a 0.3 per cent gain.

Other events and statistics include:

Today: UK, November consumer credit business, November final retail sales.

Tomorrow: UK, November housing starts and completions, 3rd quarter personal income, spending and saving, 3rd quarter company sector profits.

Wednesday: UK, October overseas travel and tourism, November advance energy statistics. Sweden, presentation of 1990 budget.

Thursday: France, 3rd quarter national accounts.

Friday: UK, quarterly analysis of bank advances, December usable steel production. Japan, December trade figures.

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BANK LENDING

Algeria avoids rescheduling debt

FOR COUNTRIES such as Algeria, last month's advice from the World Bank with respect to foreign debt is unequivocal: "Any deliberate behaviour designed to elicit some relief on their existing debt burden would likely result in exorbitant long-run costs."

Algeria's long-standing decision to avoid rescheduling – reiterated in a central bank document issued last month – has been hard to maintain as international banks retreated from developing countries. Its foreign debt is around $24.4bn, of which $1.6bn matures in less than a year.

Despite the disruption to external financing made likely by a rescheduling and emphasised by the World Bank in its world debt tables published last month, some bankers have advised Algeria to reschedule.

The Algerians have ignored this advice, partly out of pride, partly out of suspicion as to the motive behind it, but mostly because it has made sense to avoid rescheduling.

The central bank implicitly admits that Algerian tactics in the international debt market have left something to be desired. Algerian borrowers have lacked co-ordination, with similar credits borrowing on differing terms at the same time. A shortening of the average life of Algeria's debt has also resulted. In the years 1985 to 1987, the average life of bilateral and multilateral debt came in from 7.2 years to 4.3 years and has not improved.

The campaign to improve debt management has started with a better statistical coverage of foreign debt, helped by the World Bank. A Committee of Foreign Borrowings has been established to monitor and restrict new borrowing. Algerian banks will negotiate external finance for companies, replacing a system where each company had to ask foreign suppliers to arrange credit, which has proved costly. Algerian companies will not be allowed to ask for refinancing facilities "as is now too often the case."

To match export receipts, 90 per cent of which are denominated in dollars, the Government wants most foreign borrowing to be in dollars. Foreign currency borrowings will be tolerated, but most will be swapped into dollars.

It is aiming to lengthen the debt's average life through more use of official bilateral and multilateral credits. Relations with the International Monetary Fund have improved and it hopes to negotiate financial and industry sector loans with the World Bank.

Algeria would ideally like its medium and long-term borrowings this year to exceed its net financing needs of $3bn to $4bn, allowing short-term debt to be paid down. The central bank may establish a financing vehicle to support the credit standing of Algerian borrowers. Borrowing for balance of payments needs will be in future the responsibility of the Treasury of Algeria.

● Bids had to be in yesterday for a $560m bank international bank loan to help finance a $1.6bn expansion of the smelter at **Aluminium Bahrain**. The US Ex-Im Bank is also providing finance. Front-runners are groups led by Chase, Arab Banking Corporation and Citicorp. The loan, with a government guarantee, will be for 10 to twelve years.

● **Enimont**, the Italian chemical concern jointly owned by ENI and Montedison, is raising FFr2bn from international banks to finance its purchase of chemicals business from Orkem of France. The loan, underwritten by Banque Nationale de Paris and Citicorp, carries a 20 basis point margin for a five-year portion and one of 25 basis points for a seven-year part.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	205.0	240.0	35.0	4,423.9
Prev	563.0	0.0	687.0	3,906.2
Other	699.0	0.0	0.0	2,689.2
Prev	1,381.5	0.1	429.2	2,463.6

Secondary Market

	Straights	Conv	FRN	Other
US$	4,894.1	546.2	3,517.9	4,224.7
Prev	16,077.2	907.8	3,054.1	3,856.9
Other	6,357.7	388.1	2,931.2	10,951.3
Prev	11,152.0	621.7	3,996.3	23,752.1

	Cedel	Euroclear	Total
US$	7,091.1	10,995.7	18,086.8
Prev	7,969.0	21,083.2	29,052.2
Other	8,500.4	15,516.1	24,016.5
Prev	17,066.5	26,730.0	43,796.5

Week to January 4, 1990

Source: AIBD

INTERNATIONAL BONDS

Few opportunities for cheap money

WITH European integration likely to be the theme of this decade, the Eurobond market started the new year in a distinctly European mood.

The first week of trading saw the launch of four Ecu issues as the Ecu and Eurosterling remain the only market sectors experiencing much activity amid a general seasonal torpor. Investors were not thick on the ground as uncertainty spread across the bond markets.

This week's new issues are far from portraying a rush of investor interest in the Ecu and are more a reflection of the continuing moribund state of the Eurodollar and Swiss markets. Borrowers are spotting few opportunities for cheap money in the current climate and Ecus, with their recently favourable swap opportunities, are looking most attractive.

"Borrowers and issuers like to come back from the Christmas break and dust off their desks, but what do we do?" one syndicate manager lamented. Indeed, four Ecu issues in one week was almost too much for last week's thin market to bear and IBM's Ecu125m bond was trading outside of its fees.

Although the coupon on the 1995 IBM bond was generous at 9¾ per cent, its reception in a hesitant market was marred by the following day's launch of a three-year Ecu100m bond for Johnson & Johnson, the US consumer products group, bearing a 10 per cent coupon.

At the same time, these bonds were launched against the background of plunging European government bond prices which saw German bunds dropping to their lowest levels for five years on Wednesday. Yields on some short-term domestic bonds reached close to 10 per cent in many European markets last week, giving them an edge over Eurobonds for any uncertain investors.

General volatility across the bond markets was not inspiring investors to buy much last week even though the Ecu deals were targeted directly at investors in the Benelux countries and Switzerland.

The most successful of last week's Ecu issues were focused on their target markets. Swiss Bank Corporation launched an Ecu 100m issue for its SBC Finance arm in the Cayman Islands which carried a 10 per cent coupon and was priced at 101⅝. The structure of the Swiss deal made it easy to place since SBC took Ecu50m and Banque Paribas as co-lead manager placed Ecu20m, leaving 30 other underwriters to place Ecu1m each.

At the same time, an Ecu60m issue for Cregem Finance in Belgium which was brought to the market by Crédit Lyonnais, was placed almost exclusively in the Benelux countries.

It is expected to be a busy year for new issues of Ecu bonds, following on from last year's rise in activity when the number of new launches rose to 114 from 90 in 1988. The value of Ecu issues last year rose to Ecu11.16bn from a level of Ecu9.42bn the previous year.

This year could be even better as the market keeps its eyes on Ecu bond activity by countries such as France and Italy and anticipates major deals by the EC and European Investment Bank in the next couple of months. With the EC discussing an Ecu1bn loan to Hungary, the Eurobond market is hoping it will see a big deal by February.

The Ecu has risen in favour in recent years since it has offered borrowers attractive swap opportunities. Most Ecu deals are swapped into floating rate dollars, as were three of last week's issues. But the IBM bond was swapped into floating-rate French francs which was not an easy choice given the illiquidity of the market for swapping into the franc.

A swap from Ecus into another currency can offer a rate as good as Libor minus 40 to 50 basis points while other currencies have been offering only Libor minus 20 points, and even the best borrower's name has recently achieved a Libor flat rate when swapping out of French francs.

At these swap rates, the Ecu offers the best opportunities outside of the lira, the peseta and the Australian dollar, and these are difficult markets to penetrate even though Australian dollar bonds are becoming more common. Westpac Banking launched an A$75m bond for Ford Credit Australia last week which was priced at 102 with a coupon of 14¾ per cent. It was well received by the market and traded inside its fees of 1¾ per cent.

Last week's Ecu deals were aimed at retail investors where the weighty corporate names are almost guaranteed a good – albeit slow – reception for the long term. Retail investors are often eager to buy Ecus while institutions will buy only after a thorough analysis of the spreads and relationships between Ecus and other currencies.

One syndicate manager believes that Ecu bonds highlight very clearly the differences between retail and institutional demand.

While retail investors are lured by currency and a high coupon, institutional investors will apply more technical analysis before committing themselves. They will usually set their currency-purchasing allocations on a three-monthly basis and will not be swayed to buy on impulse as will some retail investors.

For retail investors, it is hard to determine the underlying value of an Ecu bond. Institutions will conduct a lot of close research to work out an Ecu yield but not much of this filters down to the retail customer. For this reason, Ecu bonds need to be attractively priced with high coupons to lure the retail client.

In spite of some adverse currency movements last year, retail investors remain keen on Ecu bonds. Although most participants believe the new issue market for Ecu bonds needs a slight pause to digest last week's four deals, investors are soon expected to develop an appetite for more.

Deborah Hargreaves

STERLING CORPORATE BONDS

Low rates tempt lead managers

PERHAPS the sterling corporate bond market should forget about the first week of the new decade and start again. The week suggested investors were not interested in buying sterling bonds in whatever maturity at current yields. But swap opportunities yawned open, due mainly to the shifting of the swap reference gilts at the start of the new year. With this offering borrowers low interest rates, the temptation to issue was too much for lead managers.

The three issues to hit the market on Tuesday met a poor reception. Deutsche Bank's five-year issue and Unilever's four-year deal were slightly better received, the former because it was the first to reach the market, and the latter because of the rarity of the name. But the exotic underwriting group established for the four-year deal for Morgan Guaranty Trust suggested that issue would be a hard sell.

UK institutions have little time for such short-dated paper, while worries about sterling kept most Continental buyers out of the picture. What was worse, dealer attempts to hedge their exposure to this paper hit the UK government bond market. The long gilt's steep decline on the back of £300m of short-term paper hardly suggested a government bond market of great depth.

The gilt market was also spooked by prospects for forthcoming issues from the water companies. Baring's conversations with UK investment institutions about a £150m, partly-paid, 20-25 year issue for Severn-Trent was enough to send another shiver through the gilt market. More is expected but at least three UK houses believe that a modest £750m of long-dated paper will be issued by water companies this year. For a market that once regularly swallowed £1bn tap stocks, this should not be excessive.

Market expectations suggested a yield premium of 150 basis points over gilts. But Barings in the event did not bring the issue, amid suggestions that the borrower's expectations could not be reconciled with those of investors.

The market had one more surprise to deliver. Another new issue – a 10-year Eurosterling issue for Denmark through Shearson Lehman Hutton yielding, at a discount equivalent to full fees, 98 basis points over the 10-year gilt – was launched on Friday.

Although the issue was swap driven, Shearson said it had identified prior to launch a handful of UK institutions with demand for the paper. Late Friday, it was bid within its 2 per cent fees at a discount to issue price of 1.95 points and Shearson said it had bought back a few bonds.

Stephen Fidler

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Swedish Export Cr.(a)♦	200	1991	1	12	100⅞	Bankers Trust Int.	11.029
Swedish Nat.Housing Fin♦	200	1995	5	8¾	101⅝	Nomura Int.	8.339
Banque Nat. de Paris♦	200	1995	5	8⅝	101¾	BNP Capital Markets	8.185
Graphtec Corp.‡	100	1994	4	(2¾)	100	Daiwa Europe	★
CANADIAN DOLLARS							
Toronto-Dominion Bank♦	100	1992	2	11¾	101.95	Hambros Bank	10.617
Toronto-Dominion Bk(c)♦	65	1994	4⅔	10¾	100.60	Deutsche Bk Cap.Mkts	10.547
AUSTRALIAN DOLLARS							
Australia Nat. Railways♦	120	2002	12	Zero	23.60	Fay, Richwhite	12.786
C'wealth Bank Australia♦	100	1995	5	14	101.40	Hambros Bank	13.596
Ford Credit Australia♦	75	1994	4	14¾	102	Westpac Banking	14.063
D-MARKS							
Deutsche Finance Neth.♦	1bn	1995	5	7½	100½	Deutsche Bank	7.377
Akebono Brake Ind.‡	130	1994	4	(1⅝)	100	Nomura Europe	★
ECUs							
IBM Int. Finance♦	125	1995	5	9¾	101⅞	UBS Phillips & Drew	9.265
Johnson & Johnson♦	100	1993	3	10	101⅞	Merrill Lynch	9.256
SBC Finance♦	100	1993	3	10	101⅝	Swiss Bank Corp.	9.354
Cregem Finance♦	60	1993	3	10¼	101⅞	Credit Lyonnais	9.503
STERLING							
Unilever♦	100	1994	4	12¼	101¼	S.G Warburg Secs.	11.840
Deutsche Bank Fin.♦	100	1995	5	12⅛	101⅜	Deutsche Bk Cap.Mkts	11.748
Morgan Guaranty Trust♦	100	1994	4	12⅜	101.425	J.P. Morgan Secs.	11.907
Boots Finance(d)§♦	155	2005	15	6	100	S.G. Warburg Secs.	6.000
Denmark, Kingdom of♦	100	2000	10	11⅝	101.8125	Shearson L'man H'ton	11.313
LUXEMBOURG FRANCS							
Storebaelt A/S(f)★★♦	600	1993	3	9½	101¼	Kredietbank Int.	9.006
Fin. Danish Ind.Int.★★♦	300	1993	3	10	101¾	Banque Paribas(Lux)	9.305
YEN							
Svenska Handelsbnkn(b)♦	4.5bn	1993	3	8	101⅜	Bankers Trust Int.	7.472
Union Bank Finland(b)♦	1.5bn	1991	1	8¼	100⅞	Nippon Credit Int.	7.311
ASLK-CGER †FICO(e)♦	3bn	1993	3¼	(e)	101⅜	Yasuda Trust Europe	-

★Not yet priced. ★★Private placement. ‡With equity warrants. §Convertible. †Floating rate notes. ♦Final terms. a) Borrower option to redeem in either $ at par or in Ecus at $1.15 per Ecu. b) Redemption linked to Nikkei stock index. c) Issue price plus accrued interest. Fungible with existing C$125m bond launched Sept. 1989. d) Conversion price 335p. Put option in year five to yield 11.65%. Also flexible put option may be added before end of year five. e) First coupon pays Libor flat, then 7%. Redemption linked to Nikkei stock index. f) Launched in two tranches of LFr300m each. Note: Yields are calculated on AIBD basis.

INTERNATIONAL COMPANIES AND FINANCE

UK seeks assurances from Japan on equity warrants

By Stephen Fidler, Euromarkets Correspondent

BRITAIN has made diplomatic representations to Japan in an attempt to ensure that non-Japanese securities houses are consulted before decisions are made which could affect trading in Japanese equity warrant issues.

Last month, the Japanese Ministry of Finance gave notice that it was actively considering moves, such as the compulsory listing of equity warrants on the Tokyo Stock Exchange, which would increase the transparency in the warrant market. This would have the effect of bringing home much of the equity warrant business now carried on in London.

The issue by Japanese companies of bonds carrying warrants giving holders the right to buy their shares at a specified price has been a mainstay of the Eurobond market in recent years, accounting for a quarter of the $208bn of new issues in the Eurobond market last year.

Some securities houses view the MoF proposals as a deliberate attack on foreign firms in that market. But the ministry has said it is chiefly concerned with making the market fairer for Japanese individuals who buy many of the warrants once they have been stripped from the bonds.

Although the rising Japanese stock market has made such warrants purchases highly profitable, securities houses are reputed to take huge commissions on sales and purchases with private investors.

According to UK officials, the British representations recognise the Japanese Government's right to regulate its own markets and are motivated by a desire that any new rules should avoid discrimination against foreign companies.

The UK Government hopes to ensure these companies are consulted before decisions are taken, but has no desire to be part of such consultations itself.

Bundesbank eases issue curbs

By Andrew Fisher in Frankfurt

WEST GERMAN banks and companies will be able to issue bonds in foreign currencies for direct sale to German investors under the latest capital markets liberalisation step decided by the Bundesbank.

Until now such issues have had to be made through foreign subsidiaries of German credit institutes or by foreign consortia, though bonds have inevitably flowed back to Germany in the secondary market.

Mr Claus Köhler, a director of the Bundesbank, said the move had been decided on because there was a recognised need for it and the Central Bank could see no objections. "The idea is to take account of the globalisation of financial markets," he said.

"The liberalisation also applies to issues in European currency units (Ecus). The private use of special drawing rights (SDRs) will also be allowed. Germans have been able to hold accounts in Ecus since mid-1987.

Mr Köhler said the Bundesbank hoped its decision on foreign currency loans would encourage more industrial companies to issue bonds. Foreign currency loans issued abroad by German concerns totalled the equivalent of around DM6bn last year.

The Bundesbank said future issuers of foreign currency loans should ensure that the country whose currency was being used had no objections.

Bond dealers said the move would help strengthen Frankfurt's position as a financial centre, but felt it would have no immediate impact on business.

World Bank plans global offer

By Stephen Fidler

THE NEXT $1.5bn bond issue to be launched by the World Bank is to be offered simultaneously to investors in Europe, the US and in Japan.

This will be the first time that a new bond will have been offered in all three of the world's largest capital markets.

The World Bank, which confirmed on Friday that it would make the offering, launched its first so-called "global bond" issue for $1.5bn in September.

That was offered simultaneously only in the US and Europe.

It appointed Goldman Sachs and Morgan Stanley serve as joint lead managers, with IBJ International and Nomura Securities as co-lead managers.

Salomon Brothers and Deutsche Bank Capital Markets were selected as joint leaders of the first issue.

The issue will be launched in coming weeks with terms depending on market conditions at the time of launch. The September issue carried a 10-year maturity, and most Eurobond traders in London expect a five-year maturity although one for 10 years is possible.

The first issue is viewed as having been a partial success. Launched at a yield spread to the US Treasury market of 37½ basis points, the spread narrowed to 21 basis points before widening again to levels close to that at launch.

However, trading in the issue has been overwhelmingly concentrated in Europe with the US participation disappointing. This is partly because the existing World Bank issues in the US market offer significantly higher yields than the global issue.

The choice of two US lead managers is being seen as an attempt to improve the US participation.

Apple denies Xerox's charges

By Louise Kehoe in San Francisco

APPLE Computer has denied charges that it derived key elements of its popular Macintosh personal computer software from programs created at Xerox's neighbouring Silicon Valley Research Center in the late-1970s.

Apple's claims to the "graphical user interface," including icons, pull-down menus and other graphical features that replace typewritten commands to make the Macintosh personal computer easy to use, were challenged last month by Xerox in a suit charging "copyright fraud."

Responding to Xerox's lawsuit on Friday, Apple denied Xerox's charges and asked a Federal judge to dismiss Xerox's $150m lawsuit "with prejudice."

Apple is seeking costs and damages in response to what it claims is an unmerited attack upon its copyrights.

Apple has acknowledged that it was inspired by Xerox's early work on graphical user interfaces, but Apple officials said the company developed its own software programs independently.

The legal battle between Apple and Xerox could have widespread repercussions throughout the computer industry as growing numbers of computer companies adopt "graphical user interfaces" similar to that used on the Apple Macintosh.

Apple has already claimed ownership of key elements of the graphical user interface in a separate legal dispute with Hewlett-Packard and Microsoft.

Responding to the Xerox suit, Apple charged that Xerox had delayed too long to file its claim and had therefore forfeited any rights to its software.

Xerox said the company's suit was prompted by recent changes and clarifications in software laws, the start of its own aggressive licensing programme, the move by many companies to adopt similar graphical interfaces and Apple's assertion in the Microsoft case that it was the rightful owner of the technology.

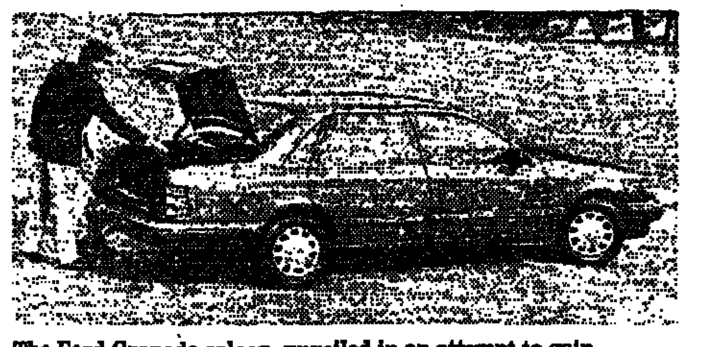
Ford launches Granada saloon

By John Griffiths

FORD is launching a saloon version of its Scorpio/Granada model at the Brussels motor show today in a major, but belated, bid to improve its lacklustre performance in Western Europe's thriving executive car market.

The "three-box" saloon version is being launched four years after the original hatchback-only model went on sale and into a market where – by Ford's own admission – seven out of 10 buyers prefer saloons to hatchbacks, considering the latter to be "downmarket."

The region's large car sector is an important one for manufacturers. It accounts for about 11 per cent of total new car sales, estimated at some 1.4m units last year. At its peak in the 1970s, the predecessor to the current Scorpio/Granada range – sold in saloon,estate and hatchback forms – was achieving nearly 200,000 sales a year.



The Ford Granada saloon, unveiled in an attempt to gain access to 80 per cent of the executive car market

However, in 1988, the last full year for which figures are available, Ford sold only 88,772 of the current range for a total market share of 0.7 per cent – a share on which it was unable to improve in the first nine months of last year.

In 1988, General Motors sold nearly twice as many of its equivalent Opel Omega/Vauxhall Carlton saloons and estates (153,280).

However, the picture is complicated by the fact that Western Europe's single best-selling executive car in 1988, Renault's R21, achieved its 295,271 sales as a hatchback.

Among the region's major markets, only in the UK, where Ford is overall market leader, does the Granada outsell its GM rival. By introducing the saloon model, Ford will gain access to over 80 per cent of the executive car market. (It is still without estate car version).

The saloon version was designed at Ford of Europe's Dunton research centre in the UK. It will be offered with similar specifications to equivalent models in the existing hatchback range, including four-wheel-drive models. Seven versions will be offered with catalytic converters.

Newfoundland fishery to scale down operations

By Bernard Simon in Toronto

DWINDLING fish resources off Canada's east coast have forced Newfoundland's Fishery Products International to scale down its operations by about one fifth, including the closure of three processing plants, and 1,300 lay-offs.

The plants, all on Newfoundland's south coast, will be shut at the end of the 1991 season. FPI, which holds the largest fish allocations on Canada's Atlantic coast, will also mothball, sell or scrap 13 of its 55 trawlers.

The austerity measures come on the heels of last week's 16 per cent cut in 1990 quotas for northern cod, the brunt of which will be borne by the offshore industry. FPI said it would also review its inshore fishing operations.

Even before the cuts FPI's eight trawler plants were working at only 55 per cent of capacity.

Mr Victor Young, the company's chairman, said that without austerity measures, these plants would be at only 45 per cent of capacity in 1990. The company's quotas have been chopped by 74m lbs, or 38 per cent, in the past two years.

The other big east coast fishing company, National Sea Products of Halifax, last month announced the closure of three plants with the loss of over 1,500 jobs.

The problems of the east coast fishery industry have cast deep gloom over Atlantic Canada. The plant closures and the imminent rationalisation of the inshore fish industry have raised fears that several of the colourful fishing communities that dot the Newfoundland and Nova Scotia coasts will disappear over the next few years.

Both the Newfoundland and federal governments announced plans on Friday to cushion the blow to fishery workers. Ottawa will spend C$130m (US$112m) in the next four years on retraining programmes, income support for older workers and efforts to find alternative employment. Because of the seasonal nature of the industry, the average fishing family gets about 41 per cent of its income from unemployment insurance payments.

FPI has come full circle since it was formed in 1984 by the merger of several unprofitable Newfoundland seafood companies, with the Canadian Government holding a controlling stake. As fish prices improved in the mid-80s, the company expanded and prospered, posting a C$58m net profit in 1987. The Government sold its 63 per cent stake in April 1987.

End to BBV row urged

By Peter Bruce in Madrid

THE WARRING directors of Spain's biggest bank, Banco Bilbao Vizcaya (BBV), were being pressed at the weekend by their surviving co-president, Mr Jose Angel Sanchez Asiain, to end nearly a month of infighting over who should replace Mr Pedro Toledo, the former co-president who died unexpectedly in December.

Deep divisions between directors of the two banks that merged last year to form BBV – Banco de Bilbao and Banco de Vizcaya – have so far prevented the nomination of a successor to Mr Toledo, the former Vizcaya president who was to have become sole BBV president on Mr Asiain's retirement in two years.

A day after Mr Toledo's death on December 12 the former Vizcaya board members nominated Mr Alfredo Saenz, one of their number and managing director of the BBV, as co-president. The old Bilbao board and Mr Asiain rejected the nomination, saying the dual presidency was not working. Mr Asiain offered to resign and allow a crisis committee of three directors from each bank to name a single successor.

On Friday, Mr Asiain said he would call a series of meetings this week with the BBV's various supervisory bodies "in the interests of shareholders, clients and employees" to try and reach a quick solution to the problem. On Saturday, Mr Asiain wrote to Mr Emilio de Ybarra, the BBV's vice-president and a former Bilbao director, formally offering to resign but saying that he intended act a sole president until a solution is found.

Mr Asiain's decision reflects his frustration at the slowness of the crisis committee.

Turkey and France in bank link

By Jim Bodgener in Ankara

A PROTOCOL for the establishment of a merchant bank in France with a capital of FFr50m ($8.77m) has been signed by three Turkish institutions and one French. The new bank, yet to be named, is the first of its kind to be established by Turkish institutions.

The three – Emlakbank, Vakifbank (both Turkish state-owned) and Finansbank – equally will account for 90 per cent of the shares, with the remainder held by French state-owned Banque Worms.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Braced for the impact of politics

AT THIS LATE stage in the world business cycle, particularly against the background of the astonishing events in Europe, politics is likely to prove more important than economics in settling the fate of the financial markets.

The fundamental question for the US bond market in particular is whether a recession will prove expedient to US and international policymakers in the foreseeable future.

More precisely, the question is whether a point will come within the next year or so when the political risk of a possible acceleration of inflation starts to exceed the political cost of a significant rise in unemployment. Unless this question can be answered in the affirmative, there seems to be little chance of any sustained improvement in the US bond market this year.

For, as investors have reluctantly begun to acknowledge since the last major rally ran out of steam six months ago, a mild economic slowdown of the "soft landing" variety is not *going to be* deflationary enough to justify 30-year bond yields below the current range of 7¾ to 8 per cent.

In fact, the balance of probabilities now points to this trading range being breached on the upside and bond yields drifting back towards 8½ per cent. Nine months from now, on the other hand, the picture may become considerably more bullish again.

This pattern would be completely contrary to the conventional wisdom on Wall Street, which holds that interest rates are likely to fall during the next six months or so and then start moving upwards as the economy strengthens towards the end of the year.

While this consensus view may prove right when applied to the Federal funds rate, many investors have missed the remarkable decoupling of bond yields from short-term interest movements in the last six months.

There is no economic law which says that long bond yields must fall whenever the central bank cuts short-term rates in the money market. On the contrary, when real long term rates fall to unusually low levels, as they have since the middle of last year, the *danger of accelerating inflation* begins to loom much larger in bond investors' calculations than the funding costs determined by money market rates.

Under these circumstances, cuts in the Fed funds rate can have minimal or even perverse effects on bond market's performance – and this is what has happened since last year's rally peaked in late July.

In fact, the 8.05 per cent yield on the Treasury's 30-year bonds is the same today as it was last July, despite the fact that the Federal funds rate is now a full percentage point lower. This decoupling process could still have a long way to go.

It is worth recalling the shape of the yield curve in August 1987, for instance. Fed funds back then cost a mere 6½ per cent, outdoing the sanguine dreams of today's most bullish bond analysts. Yet the 30-year bond was stuck in a trading range of 8¾ to 9 per cent – a range which was not broken until Black Monday.

At present, such scary comparisons make little impression on Wall Street since the possibility of an imminent recession has not yet been entirely excluded. But looking ahead, the comparison seems less far-fetched especially when one considers political factors.

However, political considerations make such a recession almost inconceivable this year. The congressional and state elections due in November are much more important than the usual mid-term polls because they will determine the decennial constituency boundary changes which will in turn set the shape of US politics for the next decade.

Under these circumstances it will be virtually impossible for a Fed dominated by Republican political appointees to take recession risks in the first half of this year.

Further reductions in short-term interest rates therefore seem plausible in the *months ahead*. But these are likely to heighten concerns about inflation in the bond market, especially if they coincide with seasonally poor inflation figures, a falling dollar and a deteriorating trade performance.

What happens beyond the summer is another question. Sometime in the second half of this year the Fed and the White House will have to make a momentous choice. Do they attempt to orchestrate a carefully controlled recession soon after the November elections to shake the speculative excesses out of the financial markets and squeeze the core rate of inflation below the 4 per cent mark where it has been stuck since 1983?

Or do they try to extend the uninterrupted eight-year economic expansion for another two years and accept the risk of events spinning out of their control just before the 1992 presidential election?

Curiously enough, the Bush Administration's counterparts in Europe will face some very similar dilemmas later this year. In Germany, the authorities have two priorities at present – to win the November elections and to maintain economic growth while the nation adjusts to the inflow of immigrants from the East.

Indeed, the imperative of keeping the economic expansion growing is now overwhelming throughout Europe because anything else would risk causing greater instability and hardship for the former Soviet bloc.

By the second half of this year, political agendas might start to change subtly in Europe as well as in the US. December 1992 is a key date in Western Europe.

As in the US, therefore, the early part of 1991 will offer the last window of opportunity for an attack on inflation.

As in the US, the attack is unlikely to be very intense or long-lasting, given the need to resume expansion by mid-1992 at the latest.

But it could provide *just* enough comfort for bond investors to give the worldwide bull market which began eight years ago one final run.

Anatole Kaletsky

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds	8.13	9.75	8.44	9.92	8.00
Three-month Treasury bills	7.77	7.82	7.82	9.03	7.05
Six-month Treasury bills	7.83	7.99	7.69	9.03	7.37
Three-month prime CDs	8.25	8.10	8.35	10.35	8.18
30-day Commercial Paper	8.15	8.65	8.50	9.95	8.05
90-day Commercial Paper	8.05	8.30	8.20	10.05	8.14

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	99⅞	-⅛	8.02	7.96	7.81
20-year Treasury	110¼	-⅛	8.15	8.08	7.95
30-year Treasury	100¼	-¾	8.05	7.97	7.88

Money supply: In the week ended December 25 M1 rose $5.9bn to $802.4bn.

NRI TOKYO BOND INDEX

December 1983 = 100	4/1/90	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	147.18	6.17	147.44	148.70	148.13
Government Bonds	146.86	5.89	147.37	148.66	148.22
Municipal Bonds	148.53	6.32	148.80	150.23	150.03
Govt.-guaranteed Bonds	150.14	6.40	150.26	151.59	151.04
Bank Debentures	141.46	6.50	141.46	142.53	141.92
Corporate Bonds	150.79	6.16	150.61	152.09	150.69
Yen-denom. Foreign Bonds	156.78	6.48	156.58	157.12	155.80
Government 10-year†	5.67	–	5.58	5.27	5.14

† Estimated par yield

Source: Nomura Research Institute

Placer Dome adopts 'poison pill'

PLACER DOME, the Vancouver-based international gold producer and the subject of recurrent takeover talk, has adopted a "poison pill" or shareholder rights plan, writes Robert Gibbens in Montreal.

Placer has a market capitalisation of more than C$5bn (US$4.5bn). It sits on C$700m cash and has put its oil and gas business up for sale – worth an estimated $500m.

The company is North America's biggest gold producer and is developing two big mines in South-East Asia.

UK GILTS

Contrary path to buoyant equities

TO THE casual observer it would seem as if the gilt-edged market slept through one of the more interesting weeks. As the stock market established an all-time high and the pound entered the New Year on a firm note, the gilt market traded in a lacklustre fashion and, at the longer end, drifted lower.

But it was a curious week for the markets around the world: as equity prices rose, fixed income prices fell in the major markets of US, Japan, West Germany and the UK.

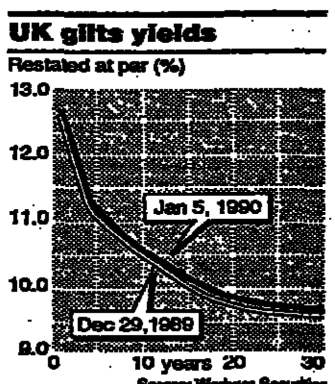
The apparent reason for this contrary movement in asset prices was the same: a generalised upsurge in feelings of well-being about the prospects *for growth in 1990 and beyond.* Something does not add up, however, when both bond yields and equity prices rise. The London equity market seems to have been encouraged by the bullish growth forecasts for the UK this year and next. A soft landing may not have been promised but according to this view it is in prospect.

This changed sentiment met a frosty reception in the gilt market. The four Eurosterling issues that came to the market, although predominately at the short end, probably did not help matters either.

Although the equity market became convinced that base rates had peaked, gilts failed to get in the party mood. Doubts still abound in official circles about the response of the economy to 15 per cent base rates.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

No one doubts they have had *an effect but at the Treasury* there is still a body of opinion that does not think the UK is close to being through the woods yet. A 6 per cent plus rise in M0 in the year to December is seen as worrying, though difficulty with seasonal adjustment at this time of the year mitigate slightly the queasiness the figure induces.

Expectations about the outlook are likely to ebb in the run up to the Budget. News that the Bank of England has cancelled plans to hold a reverse gilt auction should keep the market guessing about possible changes to the funding rule.

If there is to be any further change to funding policy, that decision will occur during the secret Budget-making discussions which get under way in earnest this weekend.

The balance of argument has moved perceptibly in favour of those recommending change. The all-party Commons Treasury and Civil Service Committee has produced some cogent arguments in favour of "financing" the public sector borrowing requirement while the Treasury's riposte, delivered by its permanent secretary, Sir Peter Middleton, looked correspondingly weak.

It was Sir Peter who provided the committee with one of its most powerful arguments in favour of change. It was he who said that M4, the broad monetary indicator and the one towards which policy is designed to be neutral, was *virtually meaningless.*

In light of this it would be odd if the Treasury, especially under Mr John Major, maintained its haughty disdain of any questioning of this policy. To many in the market the committee's recommendation makes a lot of sense.

As policy is presently constructed, in the space of less than a year the authorities have had to increase the Treasury bill auction to provide the money markets with enough paper to sell back to the Bank to relieve the money market shortages caused by the Budget surplus.

The volume of issuance became so large that the authorities had to exclude Treasury bills from the funding equation to save themselves from the absurdity of having to "unfund" private holdings brought about by the increased issuance.

This has been one consequence of the M4 rule, but there have been others. To some it has distorted the role of monetary policy and this is where the implications of the TCSC's recommendation appear most cogent.

By ditching the M4 objective, monetary policy, like fiscal policy, can be allowed to work on the basis of automatic stabilisers. In periods of strong growth, monetary policy will bolster the tendency towards restraint (through modest over-funding) that a cyclical rise in the fiscal surplus brings. Likewise, in periods of downturn, when the PSBR can be expected to move into deficit, monetary policy will tend to be expansionary (through modest underfunding).

From an operational point of view, a change in policy does not mean the Bank will cease buying back gilts at all; it simply means that, with the distinction between the monetary sector and the non-monetary sector done away with, it will buy back less. The opposite applies in the situation where the Government runs a deficit.

As the Treasury has embraced the idea of automatic stabilisers in the context of the fiscal position, it seems odd that it does not follow its own logic through to the implications for funding policy.

Simon Holberton

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
AETNA LIFE & CAS 7⅞ 16	200	97⅛	-⅛	8.01
AHFC O/S.FIN. 11¼ 94	100	101	0	11.40
ALBERTA PROVINCE 7⅞ 91	750	97⅞	0	8.61
ALBERTA PROVINCE 9¼ 95	600	103¼	-⅛	8.63
ALCOA AUSTRALIA 11 92	80	100⅞	0	10.52
AMERICAN GENERAL 9¼ 95	100	103	-⅛	9.00
ANHEUSER-BUSCH 9¼ 92	100	100¼	-⅛	9.01
AUSTRALIA 11 95	200	109¼	-⅛	8.74
AUSTRALIA 11¼ 00	100	110¼	-⅛	9.65
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
QANTAS AIRWAYS 8⅞ 96	97	98⅞	-⅛	8.97
QUEBEC HYDRO 9½ 98	150	105⅞	-⅛	8.75
QUEBEC PROV 9 98	200	101⅞	-⅛	8.74
QUEBEC PROV 13 90	150	103	0	8.95

	Issued	Bid price	Chg on week	Yield
QUEENSLAND GOVT 10¼ 95	100	105¼	-½	8.99
RALSTON PURINA 11¼ 95	150	108	-½	9.71
REYNOLDS R.J. 10¼ 93	100	95½	-⅛	11.77
RICHARDSON-VICKS 11½ 93	125	102⅞	0	10.69
ROCKWELL INT 9⅞ 90	200	100¼	+⅛	9.28
S.A.S. 10¼ 95	150	103¼	-⅛	9.26
SAINSBURY 9⅛ 96	150	100¼	-⅛	9.04
SARA LEE 9¼ 93	150	100¼	-⅛	9.20
SASKATCHEWAN 8⅞ 91	150	99⅞	0	8.93
SASKATCHEWAN 15 92	150	113⅞	-⅛	8.91
SEAGRAM CO 8⅞ 96	100	95⅞	-⅛	9.37
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SAITAMA BANK 1⅞ 02	100	112⅞	-⅛	-1.24
OMNICOM 6½ 04	100	105⅞	+1⅞	14.03
PIONEER CONCRETE 9½ 98 A$	175	82⅞	+1⅞	11.45

	Issued	Bid price	Chg on week	Yield
ROCKEFELLER CENTER 0 00	952	36¼	+¼	-61.36
SANWA BANK 1⅞ 02	300	99⅞	-3⅞	-3.11
THORN EMI 5⅞ 04 £	185	109⅞	+2⅞	1.80
YEN STRAIGHTS				
ALLIED-SIGNAL 6⅞ 93	20.00N	99⅛	0	7.03
AUSTRIA 4⅞ 94	30.00N	94⅞	-⅛	6.42
AVON CAPITAL 6⅞ 91	36.00N	98⅞	0	7.46
BARCLAYS O/S INV 6 96	40.00N	98⅞	-⅛	6.22
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on JANUARY 5

UK COMPANY NEWS

Dixons launches counter attack on Kingfisher

By John Ridding

DIXONS, the UK electrical retailer, has launched a sharp counter attack against Kingfisher, the retail company which is bidding £568m for the group.

In a document entitled "kingfisher or pelican? A bid too far" which was sent to shareholders at the weekend, Dixons criticises the performance of Comet, Kingfisher's own electrical retailer, and attacks several of Kingfisher's other businesses.

However, Kingfisher yesterday dismissed the document as "entirely missing the point". Mr Geoffrey Mulcahy, chief executive, accused Dixons of diverting shareholders' attention and said "we have a cash bid on the table, and it is Dixons' management that has to justify its record."

But Mr Stanley Kalms, Dixons' chairman, responded: "We have to ask what their credentials are. How can they properly value our businesses when their own house is not in order?"

Dixons states that Comet's profits for the six months to the end of July fell by 60 per cent and says its results have benefitted from the way it accounts for acquisitions. It says that even in the case of the small acquisition of Ultimate in 1987, reorganisation and acquisition costs totalled £15.1m.

But, according to Mr Mulcahy, "the fact is that Comet's operating profits continued to grow from £17.4m to £25.5m between 1986-87 and 1988-89 at a time when Dixons 'reported' UK retail profits fell from £81.9m to £30.1m."

With respect to Kingfisher's other operations, Dixons argues that Woolworths has failed to achieve the objectives of its "operation focus" in its high street stores, and has suffered a fall in market share.

Dixons also questions the prospects of Chartwell, Kingfisher's property company, which it claims is heavily biased towards the retail sector implying that "near term growth in property profits must be in doubt."

Mr Kalms said that "Kingfisher's offer is looking less serious by the minute" and that Kingfisher's management "have enough problems of their own without attempting to integrate yet another acquisition."

The heightened war of words between the two groups will continue this week as Kingfisher makes a series of presentations to Dixons' investors.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Carclo Engineering, Cooper Clarke, Ellis & Everard, Flextech, M.L. Holdings, Neepsend, Olim Convertible Trust, Vardy (Reg).

Finals- Treatt, Wheway.

FUTURE DATES

Interims-

Hampson Industries	Jan. 16
Harrison Industries	Jan. 15
Howden	Jan. 9

Finals-

Bredero Properties	Mar. 21
Bullough	Jan. 29
Lookers	Jan. 17
Warner Estate	Jan. 25

Apricot to concentrate resources on computing services

By Alan Cane

APRICOT COMPUTERS, a leading UK supplier of high performance personal computers, will tomorrow announce that it intends to concentrate its resources on computing services rather than computer hardware.

In doing so it will have come full circle as a computer company; it started life as a Birmingham-based computer bureau and moved into hardware with the surge in personal computers in the early 1980s.

The announcement will come as no surprise to computer industry analysts who had noted the financial strength of the group's services activities, especially in computer maintenance, compared with its erratic profitability record in hardware sales.

It has developed a family of workstations, personal computer for scientists and technologists, that are technically the equal of any in the world based on a design (Micro Channel Architecture) which International Business Machines (IBM) is trying to establish as the industry standard.

Competition in workstations and high end personal computers is formidable, however, with companies from the US and increasingly Japan and the Pacific Rim ensuring that margins are wafer-slim. Analysts have already suggested that if the company is able to turn in the expected £8m profits on a turnover of about £190m in the year to March 31, there will be no contribution from the hardware division.

Mr Roger Foster, Apricot chairman, will announce a new division, ACT (the company's original name when it was founded 25 years ago as a computer bureau and services company) which will combine the three companies Apricot acquired last year, DDT, Logsys and ITL.

ITL, at one time the UK's leading minicomputer manufacturer, had also found difficulties making profits from hardware sales. It was acquired chiefly for its successful computer maintenance business.

Apricot's strength in computer maintenance has attracted the attention of the merchant bank Singer & Friedlander, which has built up a 16 per cent stake, ostensibly for its own account.

Apricot's senior management have been disturbed by Singer's refusal to explain the strategy underlying its stated intention to acquire more than 21 per cent of Apricot's shares. It is not impressed by Singer's claim that to discuss its intentions at this stage could be considered insider trading.

An orderly end to the helter-skelter ride

John Thornhill spells out the complex rescue proposals for Audio Fidelity

THE turmoil may finally be over. After a year of boardroom crises, financial turbulence, and reports of accounting irregularities and threatened law suits, the old troubled Audio Fidelity looks set to bow out gracefully leading to the creation of a new and very different stock market creature.

At an extraordinary general meeting today, the consumer electronics company's long-suffering shareholders will vote on proposals to approve a complex rescue package that promises to save it from bankruptcy but will spell the end of its existence in its present form.

After recording a loss of £5.68m in the year to June 30 1989, Audio Fidelity has knocked together a rescue deal consisting of three main elements:

- An offer to issue 28.76m shares to buy Wharfedale, a private company well-known to hi-fi enthusiasts as the manufacturer of quality loud speakers. But following the deal, four of Audio's seven directors, including Mr Iain Burton, the chairman, will resign from the board and Wharfedale's management will assume control of the merged group in what will effectively be a reverse management takeover.
- The proposal to restore its eroded capital base by raising £2.3m via a rights issue, fully underwritten by York Trust Group, the ambitious USM-traded financial services company, which backed a management buy-in at Wharfedale in 1987. This will involve the issue of a further 25.24m shares.

Resulting from the share issues, the Wharfedale management, York Trust, and various sub-underwriters may end up owning about four-fifths of the shares of the enlarged company.

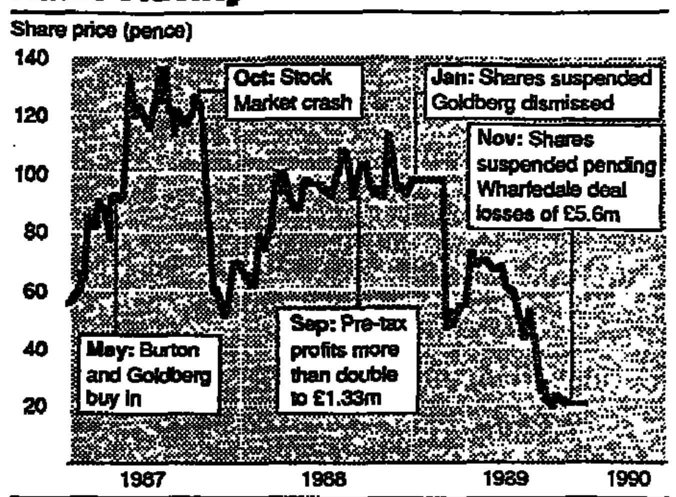
Audio Fidelity, whose shares are currently suspended, will re-apply to be listed on the Stock Exchange, but because of various technicalities it will have to be quoted on the USM rather than the main market.

- The disposal of three of Audio Fidelity's businesses, which needs shareholder approval. Captain Billy's Music, the music publishing and recording company which scratched up a loss of £170,536 last year, is to be bought by Mr Burton for a nominal £1.

Two other divisions, Trolbourne and Lion, both gift companies, are also to be sold to their management for £1, plus the assumption of inter-company debts and payment for the the value of stock.

Upon completion of all these proposals, Audio Fidelity will have a very different composition. Its main business will be the manufacture of loudspeakers, combining Wharfedale's traditional strength in the domestic speaker market with that of Audio Fidelity's Fane and McKenzie subsidiaries in the commercial market. In 1989, Wharfedale made sales of £5.41m. The two Audio Fidelity speaker subsidiaries will provide additional turnover of about £4.5m.

Audio Fidelity



But Audio Fidelity will also retain the Fanfare consumer products division, which makes novelty electronic products, such as pocket translators. The division sold 330,000 translators in 1989 although contractual and production difficulties prevented further sales.

Wharfedale itself, however, still has a lot to prove in terms of financial performance. For it, too, has experienced troubled trading times and has been in loss since 1984. The company claims it is on a recovering trend, after a management buy-in team took over in December 1987.

It points out that losses have been reduced from £1.14m in 1984 to £263,000 in 1989. And Mr Keith Mellors, who was part of the buy-in team at Wharfedale and who will become chairman of the revamped Audio Fidelity, says that Wharfedale is trading in profit this year. He adds that the merger with Audio Fidelity will strengthen its position in the loudspeaker market providing considerable opportunities for integration and rationalisation.

Mr Mellors is confident the rescue proposals will be carried by Audio Fidelity's shareholders. "It is the only course of salvation open to the company to be perfectly blunt," he says.

Mr Burton fully supports the rescue package even though it will mean the severance of his management connections with the company. "I am devastated that we were not able to complete the clean up operation and end up with a profitable, forward looking company. But under the circumstances, I believe that the Wharfedale deal should make Audio a very strong speaker manufacturer with excellent new management."

It all promises to be an orderly, if disappointing, end to what has been a helter-skelter stock market ride for Audio Fidelity since Mr Burton and Mr Stephen Goldberg, two flamboyant business figures, bought into the company amid a chorus of publicity in May 1987.

After initial apparent success, the company was then riven by a succession of crises. A boardroom row resulted in the dismissal of Mr Goldberg as chairman in January 1989. Then followed a report of accounting discrepancies leading to a restatement of profits and a plunge into loss.

In April, a public row erupted between the two former business colleagues at an extraordinary general meeting. And the friction between the two may yet continue. For Mr Stephen Goldberg, who still has a 12.3 per cent shareholding in the company, has expressed doubts about some of the board's present suggestions and will question them about their proposals.

He has not yet decided whether to support the purchase of Wharfedale, but he does express some reservations. "The acquisition does not appear to be the wisest move the company could have made. Audio Fidelity is paying £3m for a company with £1m in assets and with no profit record. It is a very good deal for Wharfedale's shareholders, but not for Audio Fidelity's," he says.

Feelings of bitterness clearly remain. "In a terrible way, I am delighted the company has not done well. It is obvious that they cannot now blame me for everything that went wrong," Mr Goldberg says.

GrandMet considers Courage swap

By John Ridding

GRAND METROPOLITAN, the food, drinks and retailing group is considering selling its brewing interests to Courage, the brewer owned by Elders IXL of Australia, possibly in return for some of Courage's public houses.

The swap is one of several options being considered by GrandMet, which is reviewing the future of its brewing businesses following last year's MMC recommendations that brewers be limited to 2,000 tied outlets.

GrandMet is currently one of the five largest brewers in the UK and owns about 5,000 public houses. About 5 per cent of last year's pre-tax profits of £732m came from its brewing and branding businesses.

GrandMet declined to comment on the talks, but said that it would decide on the future of its brewing interests by Spring this year.

It is also holding talks with Anheuser Busch, the large US brewer and several other brewers.

The proposals being discussed with Courage are believed to involve the sale of certain of its four breweries in return for part of Courage's chain of public houses. The two companies already have links. GrandMet brews Elder's Fosters lager under licence in the UK.

Balmoral back on the attack

By John Ridding

BALMORAL International, a private Edinburgh-based company which is attempting a management coup at Norfolk Capital, has renewed its attack on the hotels group and set out performance targets which will determine its payment should its approach be successful.

In a document sent to shareholders at the weekend, Balmoral argues that its performance-based fee for managing Norfolk is dependent on its ability to raise substantially earnings per share, dividends, and market value.

It also cites "the extensive experience of its management team."

But in a pre-emptive letter which was sent to shareholders on Friday, Norfolk argues that Balmoral is proposing a similar strategy to its own "at considerable cost" to shareholders.

Norfolk also claims that Mr Peter Tyrie, Balmoral's managing director, and his colleagues, do not have the experience necessary to carry out their plans to develop an international group of luxury hotels.

Under its proposals, Balmoral's management will receive a basic fee of £500,000 per annum for its full time management services.

There are further fees of up to £7m which are conditional on increases in Norfolk's share price and on earnings and dividend performance.

Balmoral's document also includes a renewed attack on Norfolk's performance.

It claims that the company's profit margin was only 12 per cent in 1988 compared with an industry average of 17 per cent and that its earnings per share fell by 20 per cent in that year.

Norfolk shareholders will vote on Balmoral's proposals at a special meeting on January 29.

FINANCIAL TIMES STOCK INDICES

	Jan 5	Jan 4	Jan 3	Jan 2	Dec 29	Dec 28	1989/90 High	1989/90 Low	Since Compilation High	Since Compilation Low
Government Secs.	84.10	84.06	84.16	84.20	84.29	84.16	89.29	82.93	127.4	49.18
Fixed Interest	92.71	92.59	92.84	92.74	92.52	92.53	99.59	92.02	105.4	50.53
Ordinary	1948.8	1957.3	1968.3	1934.1	1916.6	1896.2	2008.6	1447.8	2008.6	49.4
Gold Mines	306.4	298.7	308.9	309.5	309.1	314.9	317.8	154.7	734.7	43.5
FT-Act All Share	1220.77	1224.52	1226.83	1210.92	1204.70	1193.66	1226.83	921.22	1238.57	61.92
FT-SE 100	2444.5	2451.6	2463.7	2434.1	2422.7	2398.8	2463.7	1782.8	2463.7	986.9

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
60 Holdenhurst Rd, Bournemouth 0345 717373

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
High Income						
American Income	6	55.23	55.82	59.39	4.51	40000
Gilts & Fixed Int	6	108.1	108.1	114.7	[illegible]	40001
High Inc Equity	6	140.7	140.7	[illegible]	[illegible]	40002
Worldwide Bond	6	205.7	205.7	218.0	[illegible]	40003
Capital Growth						
American Growth	6	200.2	202.1	215.1	1.02	40004
Asian Pacific	6	[illegible]	[illegible]	[illegible]	[illegible]	40005
Assets & Earnings	6	163.1	163.1	[illegible]	[illegible]	40006
Capital Reserve Acc	0	88.88	[illegible]	[illegible]	[illegible]	40007
Capital Reserve Inc	0	78.87	[illegible]	[illegible]	[illegible]	[illegible]
Comdty & Energy	6	119.4	119.4	[illegible]	[illegible]	[illegible]
Dividend & Growth	6	48.15	48.24	51.96	[illegible]	—
1992 Enterprise	6	64.36	[illegible]	[illegible]	[illegible]	[illegible]
Euro Capital Acc	6	104.3	105.9	[illegible]	[illegible]	[illegible]
Euro Capital Inc	6	102.5	[illegible]	[illegible]	[illegible]	[illegible]
General	5	186.5	186.5	[illegible]	[illegible]	[illegible]
International	5	62.53	[illegible]	[illegible]	[illegible]	[illegible]
Japan	6	123.4	[illegible]	[illegible]	[illegible]	[illegible]
Mastertrust	6	95.25	95.25	[illegible]	[illegible]	[illegible]
UK Growth Acc	6	186.4	[illegible]	[illegible]	[illegible]	[illegible]
UK Growth Dist	6	123.2	[illegible]	[illegible]	[illegible]	[illegible]
US Emerging Cos	6	55.81	57.13	60.83	[illegible]	[illegible]
Income & Growth	6	318.2	[illegible]	[illegible]	[illegible]	[illegible]
Ethical	6	49.32	49.32	52.75	1.90	[illegible]

Abtrust Management Ltd (1000)H
10 Queens Terrace Aberdeen AB9 1QJ [illegible]

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Amer Inc & Growth	5¼	33.53	[illegible]	[illegible]	[illegible]	[illegible]
European	5¼	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
European Income	5¼	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Exempt	1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Buckmaster Mangmt Co Ltd—Contd.

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
International	5	[illegible]	121.2	129.2	1.00	40212
(Accum Units)	5	166.7	166.7	176.3	1.00	40213
Smaller Co	5	106.5	108.5	115.1	2.24	40214
(Accum Units)	5	118.5	120.3	127.6	2.24	40215
Inc Portfolio	2½	57.80	58.82	60.24	3.06	[illegible]
(Accum Units)	2½	60.00	61.06	62.95	3.06	[illegible]
High Income Port	3	49.85	50.65	52.50	5.15	[illegible]

Burrage Unit Tst Mangmt Ltd (0905)F
117 Fenchurch St, London EC3M 5AL 01-480 7216

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Sm Dis Gilt & Fl	1½	55.57	55.57	56.36	[illegible]	40216

CCF Foster Braithwaite UT Mngt (1100)F
1 White Hart Yard, London SE1 1NX 01-407 5966

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
F & B Selection	5½	52.47	52.47	56.47	1.33	[illegible]

CCL Unit Trusts Ltd (1400)F
74 Shepherds Bush Green W12 8SD 01-740 7070

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
UK General Tst	5½	57.16	58.44	62.17	2.23	40217
Global Tst	5½	[illegible]	49.43	52.59	2.01	40218
Recovery Tst	5½	49.01	50.29	53.50	1.92	40219

CIBC Unit Tst Managers plc (1200)H
Cottons Ctr, Cottons Lane, Ldn SE1 2QL 01 234 6000

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Growth Fd Acc	5	118.9	120.6	127.2	4.10	40220

CIS Unit Managers Ltd (1000)F
PO Box 105, Manchester M60 4AH 061 837 5060

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
UK Growth	6	109.0	110.6	117.7	2.15	[illegible]
UK Income	6	107.9	109.7	116.8	4.95	[illegible]

CS Fund Managers Limited (1000)H
125 High Holborn London WC1V 6PY 01-242 1148

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
CS America	5	65.40	65.40	69.57	1.16	40221
CS International	5	63.16	63.16	67.19	1.45	40222
CS Japan	5	152.9	152.9	162.6	0.35	40223
CS Portfolio Inv &	5	73.84	73.84	78.55	3.48	40224

Canada Life Unit Tst Mgrs Ltd (1200)F
High St, Potters Bar, Herts EN6 5BA 0707 51122

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Car Gen Dist	5	155.7	158.4	166.4	2.78	40225
Do Gen Accum	5	262.9	267.6	281.0	2.78	40226
Do Income Dist	5	99.24	101.8	106.9	5.27	40227
Do Inc Accum	5	233.7	239.8	251.7	5.27	40228
Gilt & Fxd Int	5	36.49	36.54	38.37	8.37	40229

[illegible]

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the Government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♣ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♦ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers.
Other explanatory notes contained in last column of the FT Unit Trust Information pages.

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Unit Name	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-line
Wardley Unit Tst Mngrs Ltd (0900)H						
5 Harbour Exchange, London, E14 9GJ						01-955 5055
American ♦	5¼	72.79	72.79	77.85	1.4	41574
Intl Growth ♦	5¼	86.84	86.84	92.87	1.0	41575
Income ♦	5¼	135.1	135.1	144.4	4.7	41576
Japan Growth ♦	5¼	250.8	250.8	258.2	0.1	41577
Pacific Perf ♦	5¼	165.3	165.3	176.7	0.1	41578
Small Co's ♦	5¼	135.0	135.0	144.3	1.4	41579
Technology	5¼	34.70	34.70	37.11	0.1	41580
Australia	5¼	65.68	65.68xc	70.24	3.4	41581
UK Trust ♦	5¼	186.0	186.0xd	198.9	2.6	41582
European Growth ♦	5¼	78.50	79.25	84.76	0.1	41583
Hong Kong ♦	5¼	33.91	33.91	36.76	1.8	41584
Intl Income	5¼	22.40	22.40xd	23.95	7.2	41585
Spore & Mlysa Gth	5¼	41.22	41.22	44.06	0.1	41586
British Winners ♦	5¼	27.53	27.53	29.44	1.8	41587
Japan Smllr Cos ♦	5¼	32.58	32.69	34.97	0.1	41588
Waverley Unit Tst Mngmt Ltd (1000)F						
13 Charlotte Sq, Edinburgh						031-225 1551
Australasian Gold	6	15.59	15.59	16.58	0.00	41588
Pacific Basin	6	31.47	31.47	33.47	0.60	41589
Can Balnco Gwth ♦	6	49.17	49.17	52.30	0.10	41590
Ginnie Mae ♦	4	0.9791	0.9791	1.0198	7.32	41591
Penny Share	6	29.33	29.33	31.20	0.50	41592
Wellington Fund Mngrs Ltd (1200)F						
2, London Bridge, SE1						01-407 4404
Wellington Income	5¼	148.1	149.8xd	159.4	4.90	41593
Wellington Growth	5¼	245.8	248.2	264.1	1.13	41594
Wessex Asset Management (1330)F						
1 Richmond Hill, Bournemouth BH2 6HW						0202 299432
Wessex UK Gwth	4½	115.5	119.1	124.1	4.27	41595
Whittingdale Unit Tst Mgmt Ltd						
2 Honey Lane, London EC2V 8BT						01-606 3132
Challenger ♦ F	2¼	62.31	62.31	63.88	0.00	41596
Short Dtd Gilt ♦ F	1¼	83.07	83.07	84.18	6.44	41597
U.S. Agncy Bond ♦ F	1¼	.5794	.5794	.5870	0.00	41598
Willbro Financial Services Ltd (0985)F						
PO Box 515, 6 Broadgate, London EC2						01-588 7511
Aust Friars W'wide	5	209.2	213.2	226.8	2.53	[illegible]
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway, London, WC2B 6SD						[illegible]

OTHER UK UNIT TRUSTS

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Prolific Life & Pensions Ltd

Stramongate, Kendal, Cumbria LA9 4BE 0539 733733

Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Balanced Gwth Mngd	636.2	669.4	-	43315
Adventurous Mngd	139.5	146.8	-	46402
Secure Mngd	111.6	117.6	-	46403
Cash Fd	244.5	257.4	-	43316
Property Fund	301.4	317.6	-	43317
Equity Fund	728.7	767.0	-	43318
Fxd Int Fund	296.1	312.1	-	43319
International	344.6	362.7	-	43320
High Income	474.8	505.2	-	43321
Far East	470.9	501.0	-	43322
North American	296.9	315.9	-	43323
Special Sits	657.3	693.8	-	43324
Technology	265.8	287.1	-	43325
Extra Inc Fd	282.6	350.7	-	43326
Convertible & Gilt Fd	153.8	161.7	-	43327
American Income	136.8	147.7	-	43328
Gilt Fund 20	304.5	324.4	-	43329
European Fund	123.6	129.1	-	43330
Pref & Fixed Int	96.5	101.7	-	46332
Equity Income Dist	102.4	108.0	-	47816
Managed Dist	100.3	105.6	-	47817
Pension Funds				
Balncd Gth Mng Pen Acc	604.4	636.3	-	43331
Adventurous Mng Pns Acc	132.9	139.9	-	46404
Secure Mngd Pens Acc	110.5	116.4	-	46405
Building Soc Acc	260.3	274.0	-	43332
Property Pens Acc	308.6	324.9	-	43333
Fix Int Pens Acc	419.4	440.5	-	43334
Equity Pens Acc	798.6	840.7	-	43335
International Pens Acc	324.7	341.8	-	43336
High Inc Pens Acc	510.7	537.6	-	43337
Tech Pens Acc	173.8	183.0	-	43338
N American Pens Acc	202.6	213.3	-	43339
Far Eastern Pens Acc	463.2	487.6	-	43340
Special Sits Pens Acc	536.8	565.1	-	43341
Extra Income Pens Fd	340.0	357.9	-	43342
Convertible & Gilt Pen	168.8	177.7	-	43343
American Inc Pens	151.7	159.7	-	43344
European Pens	130.5	137.4	-	43345

Royal Heritage Life Assurance Ltd

20 Clifton St EC2A 4HX 01-920 0202/0733 262524

	Bid Price	Offer Price	Yield Gross	City-line
Multi Gwth	508.75		-	43586
Multi Gwth "A"	508.7	535.5	-	43587
Op Prop	427.8	450.4	-	43588
Op Equity	764.0	809.5	-	43589
Op High Yld	357.2	376.0	-	43590
Op Man	603.0	634.8	-	43591
Op Dep	287.8	303.0	14.75	43592
Op Inc Dist	203.3	214.1	7.67	43594
Op Int Man	348.7	367.1	-	43595
Op Emerging Co's	296.7	312.4	-	43597
Pension Funds-Series B & C Acc.				
Property	752.9	792.6	-	43598
Equity	1975.3	2079.3	-	43599
Fixed Interest	651.1	685.4	-	43600
Managed	1060.7	1116.6	-	43601
Deposit	557.2	586.6	14.15	43602
Gartmore Global	203.4	214.2	-	43603
Gartmore NA	99.3	104.6	-	43604
Gartmore Pacific	261.4	275.2	-	43605
Henderson Acc	204.7	215.5	-	43606
Perpetual Mng	212.2	223.4	-	43607
Framlington Mng	194.9	205.2	-	43608
Gartmore Pen Mngd	200.2	210.8	-	43609
Gartmore Pen Euro	159.0	167.4	-	43610
Sectman Pension Fund	126.1	132.8	-	43614
Suffolk Cap Pen Fd	116.7	122.9	-	43618
IMC Pen SB Ser B	95.0	100.0	-	46484
Pension Funds-Series D				
Property	191.5	191.5	-	43621
Equity	132.3	132.3	-	43622
Fixed Interest	160.0	160.0	-	43623
Managed	134.4	134.4	-	43624
Deposit	163.7	163.7	-	43625
Gartmore Global	127.8	127.8	-	43626
Gartmore NA	112.6	112.6	-	43627
Gartmore Pacific	137.3	137.3	-	43628
Henderson Acc	151.4	151.4	-	43629
Perpetual Mng	155.0	155.0	-	43630
Framlington Mng	155.7	155.7	-	43631
Gartmore Pen Mngd	164.6	164.6	-	43632
Gartmore Pen Euro	121.6	121.6	-	43633

Scottish Mutual Investments

	Bid Price
Pens International Fnd	217.8
Pens Gilt&Fxd Int Fnd	137.0
Pens Index-linked Fnd	131.8
Pens Property Fnd	145.0
Pens Cash Fund	143.3
Pens Halifax Fnd	148.4

Scottish Provident Institution

6 St Andrews Sq, Edinburgh

	Bid Price
Managed	200.5
Equity	203.4
International	230.7
Property	240.7
Fixed Interest	144.1
Index-Linked	130.8
Cash	139.2
Worldwide Performance	101.4
American Performance	101.0
Europe Performance	107.0
Far East Performance	105.7
Pens Mixed Init	190.0
Do Ord	230.3
Pens Equity Init	195.3
Do Ord	238.3
Pens Intnl Init	213.0
Do Ord	258.8
Pens Property Init	237.0
Do Ord	287.1
Pens Fixed Int Init	143.8
Do Ord	175.7
Pens Index-Lkd Init	114.4
Do Ord	139.4
Pens Cash Init	142.7
Do Ord	175.1

Scottish Widows' Group

PO Box 902 Edinburgh EH16 5BU

	Bid Price
Inv Pol 1 Jan 5	716.8
Inv Pol 2 Jan 5	658.0
Inv Pol 3 Jan 5	635.3
Inv Pol Cash Ser 2 Jan 5	223.5
Inv Pol Cash Ser 3 Jan 5	223.2
Mixed Fund	359.0

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (**)

حكمة امنه الأصل

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
1,400	Exch 11pc 1990‡‡	99½	14.82	12.7	12 Aug 12 Feb	1257
1,250	Exch. 12½pc 1990	99½	14.78	16.8	22 Sep 22 Mar	1262
550	Treas. 3pc 1990	97	12.07	2.10	8 Nov 8 May	1325
600	Treas 8¼pc 1987–90‡‡	97	13.79	8.11	15 Dec 15 Jun	1340
955	Treas. 8pc Cv 1990 ‡‡	97 xd	13.71	11.12	16 Jul 16 Jan	4680
1,887	Treas. 10pcCv 1990	97	13.98	18.9	25 Apr 25 Oct	1285
500	Exch 2½pc 1990	93	10.74	16.10	22 May 22 Nov	1270
2,200	Treas 11¾pc 1991	98 xd	13.54	4.12	10 Jul 10 Jan	1292
400	Funding 5¾pc '87–91‡‡	93	11.75	1.9	5 Oct 5 Apr	1275
400	Treas. 3pc 1991	90¾	10.46	9.10	13 Nov 13 May	1326
646	Treas 10pc Cv '91 ‡‡	96 xd	12.92	6.12	12 Jan 12 Jul	1286
1,550	Exch. 11pc 1991	97	12.70	18.9	25 Apr 25 Oct	1258
1,350	Treas. 8pc 1991	92	12.60	3.11	10 Jun 10 Dec	1335
900	Treas 12¾pc 1992‡‡	101 xd	12.17	18.12	22 Jul 22 Jan	1297
1,600	Treas 10pc 1992	95	12.22	17.7	21 Aug 21 Feb	1283
1,400	Treas. 8pc 1992 ‡‡	91	12.12	6.9	13 Oct 13 Apr	1337
1,288	Treas 10½pc Cv 1992‡‡	97	11.94	2.10	7 Nov 7 May	1289
500	Treas. 3pc 1992	84	10.26	6.11	11 Dec 11 Jun	1328
1,350	Exch. 12¼pc '92	100	12.00	19.7	25 Feb 25 Aug	1265
1,757	Exch 13½pc 1992	103	11.84	31.8	22 Mar 22 Sep	1266
950	Treas 8¼pc 1993	91	11.64	12.7	18 Aug 18 Feb	–
1,850	Treas 10pc 1993‡‡	96	11.42	8.9	15 Oct 15 Apr	1279
1,100	Treas 12½pc 1993‡‡	102 xd	11.49	8.12	14 Jan 14 Jul	1296
600	Funding 6pc 1993‡‡	85	10.75	9.8	15 Mar 15 Sep	1276
1,250	Treas 13¾pc 1993‡‡	107	11.38	17.10	23 May 23 Nov	1304
1,050	Treas. 8½pc 1994	90 xd	11.38	28.12	3 Aug 3 Feb	–
600	Treas 14½pc 1994‡‡	110¾	11.16	26.7	1 Sep 1 Mar	1307
1,100	Exch 13½pc 1994	107	11.32	20.9	27 Oct 27 Apr	1267
1,400	Treas. 10pc Ln. 1994‡‡	96	11.12	2.11	9 Dec 9 Jun	1284
1,550	Exch. 12½pc 1994	104	11.31	17.7	22 Feb 22 Aug	1263
1,600	Treas 9pc 1994‡‡	92	11.10	11.10	17 May 17 Nov	1345

Five to Fifteen Years

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
2,350	Treas 12pc 1995	103 xd	11.20	19.12	25 Jul 25 Jan	1294
229	Exch 3pc Gas 90–95	76½	8.65	25.9	1 Nov 1 May	1271
2,100	Exch. 10¼pc 1995	96 xd	11.08	15.12	21 Jan 21 Jul	1254
1,000	Treas 12¾pc 1995‡‡	107	10.96	9.10	15 May 15 Nov	1298
900	Treas. 14pc '96	112 xd	11.17	18.12	22 Jul 22 Jan	1305
750	Treas. 9pc 1992–96‡‡	92	10.85	9.8	15 Sep 15 Mar	1344
1,350	Treas 15¼pc 1996‡‡	118	11.00	27.9	3 Nov 3 May	1309
800	Exch 13¼pc 1996‡‡	110	10.93	9.10	15 Nov 15 May	1268
1,109	Conversion 10pc 1996	96	10.82	9.10	15 May 15 Nov	1240
1,500	Treas 13¼pc 1997‡‡	111 xd	10.87	18.12	22 Jul 22 Jan	1302
3,100	Exch 10½pc 1997	98	10.80	17.7	21 Aug 21 Feb	1253
3,750	Treas 8¾pc 1997‡‡	90½	10.58	24.8	1 Mar 1 Sep	1341
1,000	Exch 15pc 1997	120	11.02	20.9	27 Apr 27 Oct	1269
2,850	Exch. 9¾pc 1998	95 xd	10.66	13.12	19 Jul 19 Jan	1273
1,000	Treas 6¾pc 1995–98‡‡	80	10.34	25.9	1 Nov 1 May	1331
1,100	Treas. 15½pc '98‡‡	125	10.82	24.8	30 Mar 30 Sep	1308
2,500	Exch. 12pc 1998	106	10.76	16.10	20 May 20 Nov	1259
2,250	Treas 9½pc 1999‡‡	94 xd	10.39	11.12	15 Jul 15 Jan	1347
2,900	Exch. 12¼pc 1999	108	10.73	21.8	26 Sep 26 Mar	1264
1,252	Treas. 10½pc 1999	99	10.62	13.10	19 Nov 19 May	1288
1,548	Conversion 10¼pc 1999	97	10.61	16.10	22 May 22 Nov	1242
1,200	Treas. 8½pc Ln 2000‡‡	88 xd	10.33	22.12	28 Jan 28 Jul	1338
1,554	Conversion 9pc 2000‡‡	91	10.34	28.7	3 Sep 3 Mar	1244
1,817	Treas. 13pc 2000	114 xd	10.74	8.12	14 Jan 14 Jul	1299
1,050	Treas 10pc 2001	96	10.46	20.7	26 Aug 26 Feb	1280
1,250	Treas. 14pc '98–01	116	10.94	16.10	22 Nov 22 May	1306
802	Conversion 9¾pc 2001	95 xd	10.41	4.1	10 Feb 10 Aug	1248
1,600	Exch. 12pc '99–02	106 xd	10.80	18.12	22 Jul 22 Jan	1261
716	Conversion 10pc 2002	97	10.38	4.9	11 Oct 11 Apr	1241
1,450	Treas 9¾pc 2002	95	10.35	21.7	27 Feb 27 Aug	1349
1,300	Exch. 9pc 2002	90	10.28	13.10	19 May 19 Nov	1272
1,800	Treas. 13¾pc 2000–03	118 xd	10.79	19.12	25 Jan 25 Jul	1303
1,000	Treas 10pc 2003	98	10.22	2.8	8 Mar 8 Sep	1281
1,900	Treas. 11½pc 2001–04	105	10.60	14.8	19 Sep 19 Mar	1290
900	Treas. 10pc 2004	98	10.18	12.10	18 Nov 18 May	1282
443	Funding 3½pc '99–04	55 xd	9.03	8.12	14 Jan 14 Jul	1274
1,362	Conversion 9½pc 2004	95	10.11	18.9	25 Apr 25 Oct	1246

Over Fifteen Years

BRITISH FUNDS—Contd

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
1,881	Conversion 9½pc 2005	95	10.07	11.9	18 Oct 18 Apr	1247
1,050	Exch. 10½pc 2005	103	10.07	14.8	20 Mar 20 Sep	1251
2,200	Treas. 12½pc 2003–05	116	10.25	16.10	21 May 21 Nov	1295
1,800	Treas. 8pc 2002–06‡‡	83¾	10.01	10.11	5 Apr 5 Oct	1334
3,150	Treas. 11¾pc 2003–07	110 xd	10.27	18.12	22 Jul 22 Jan	1293
1,446	Treas 8½pc 2007 ‡‡	89 xd	9.83	11.12	16 Jan 16 Jul	1339
1,250	Treas. 13½pc '04–08	124	10.20	21.8	26 Sep 26 Mar	1301
–	Treas. 9pc 2008 ‡‡	93	9.77	6.9	13 Apr 13 Oct	1343
721	Treas. 9pc 2008 B	93	9.78			–
1,000	Treas 8pc 2009	84¾	9.74	21.8	25 Mar 25 Sep	1336
369	Conv 9pc Ln 2011 ‡‡	93 xd	9.71	6.12	12 Jan 12 Jul	1245
1,000	Treas. 5½pc 2008–12‡‡	62	9.54	4.8	10 Mar 10 Sep	1330
700	Treas. 7¾pc 2012–15‡‡	82 xd	9.68	20.12	26 Jul 26 Jan	1332
1,000	Exch. 12pc '13–'17	120	9.74	6.11	12 Jun 12 Dec	1260

Undated

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
359	Consols 4pc	40 xd	–	27.12	1 Feb 1 Aug	1239
1,909	War Loan 3½pc‡‡	36	–	25.10	1 Jun 1 Dec	1352
140	Conv. 3½pc '61 Aft	61	–	25.8	1 Apr 1 Oct	1243
56	Treas. 3pc '66 Aft	32¼	–	1.9	5 Apr 5 Oct	1324
276	Consols 2½pc	25	–	1.12	5 Ja Ap Jul O	1238
475	Treas. 2½pc	25	–	25.8	1 Apr 1 Oct	1315

Index–Linked

Amount £m	Stock (b)	Price £	Red. Yld. **	Last xd	Interest Due	City-line
650	Tr. 2pc '92‡‡(97.8)	112	4.23	17.8	23 Mar 23 Sep	1312
400	Do. 2 '94 (102.9)	105	3.49	10.10	16 Nov 16 May	–
1,000	Do. 2pc '96(67.9)	155½	3.41	10.8	16 Mar 16 Sep	1313
900	Do 2½pc '01(78.3)	131¼	3.65	18.8	24 Mar 24 Sep	1316
800	Do. 2½pc '03(78.8)	128¼	3.69	16.10	20 Nov 20 May	1317
1,200	Do. 2pc '06(69.5)	131 xd	3.69	13.12	19 Jan 19 Jul	1314
950	Do. 2½pc '09(78.8)	122	3.67	16.10	20 Nov 20 May	1318
1,350	Do. 2½pc '11(74.6)	128	3.65	17.7	23 Feb 23 Aug	1319
1,100	Do. 2½pc '13(89.2)	106	3.61	10.7	16 Feb 16 Aug	1320
1,700	Do. 2½pc '16(81.6)	115 xd	3.57	20.12	26 Jan 26 Jul	1321
1,400	Do. 2½pc '20(83.0)	112	3.52	11.9	16 Oct 16 Apr	1322
900	Do. 2½pc '24‡‡(97.7)	95 xd	3.42	11.12	17 Jan 17 Jul	1323

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for April 1989:114.3 and for November 1989:118.5

INT. BANK AND O'SEAS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
50	African Dv Bk 11¼ Ln 2010	99	11.14	1.12	4 Jan 4 Jun	–
100	Asian Dev Bk 10¼pcLn2009	96	10.74	28.3	24 Mar 24 Sep	–
100	Australia 13½pc 2010	119	11.06	23.12	28 Jan 28 Jul	–
100	Do. 11¾pcLn2015	103	11.01	22.3	26 Apr 26 Oct	–
75	Euro Inv Bk 11pc Ln 2002	100	10.97	23.2	23 Mar 23 Sep	–
75	Int-Am Dev Bk 12½pc 2003	109	11.16	7.12	8 Jan 8 Jul	–
175	Do. 9¾pcLn 2015	90	10.80	13.10	15 May 15 Nov	–
75	Mlysia 10¾pcLn 2009	90	12.09	23.12	31 Jan 31 Jul	–
50	Utd. Mexican States 16½pc 2008	110	14.90	24.1	1 Mar 1 Sep	–

CORPORATION LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
45	Birmingham 11½pc 2012	100½	11.40	13.10	15 May 15 Nov	1837
40	GLC 6¼pc 1990–92	88½	12.80	17.7	15 Feb 15 Aug	2647
40	Leeds 13½pc 2006	116½	11.25	11.9	1 Apr 1 Oct	3146
5	Liverpool 3½pc Irred	29	–	1.12	1 Ja Apr Jn Oc	3169
25	LCC 6¾pc '88–90	95½ xd	11.60	11.12	10 Jan 10 Jul	3198
26	Do. 3pc '20 Aft	27	–	1.11	1 Mar Jn S D	3197
7	Manchester 11½pc 2007	101½	11.30	29.9	25 Apr 25 Oct	3275

COMMONWEALTH & AFRICAN LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
14	NZ 7¼pc 1988–92	87¼	12.25	1.12	1 Jan 1 Jul	–
–	S Rhod 2½pc Non-Asstd.	206	–	–	1 Apr 1 Oct	–
4	Do. 4½pc 87–92 Asstd.	84½	9.33	14.7	7 Feb 7 Aug	–

LOANS

Building Societies

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
20	Nat'wide Anglia 12⅞pc 29.1.90	99 xd	14.91	2.1	29 Jan 23 Jly	–
–	Do. 12⅞pc 26 2.90	99	15.28	21.7	26 Feb 20 Aug	–
–	Do. 12¾pc 19 3.90	99	15.20	–	19 Mr 13 Sep	–
20	Do. 13¼pc 23.4.90	99	15.17	18.9	23 Apr 17 Oct	–
20	Do. 13pc 14.5.90	99	15.14	9.10	14 May 8 Nov	–
–	Do. 13⅞pc 4/6/90	99	15.07	–	4 Jun 30 Nov	–
–	Do. 14⅞pc 2.7.90	99 xd	14.99	27.11	2 Jly 26 Dec	–
–	Do. 13⅝pc 23.7.90	99	14.97	18.12		–
20	Do. 13⅞pc 13 8.90	99	14.96		7 Feb 13 Aug	–
20	Do. 13½pc Bds 3 9.90	99	14.85		28 Feb 3 Sep	–
60	Do. 3¾pcIL Ln 2021	109	4.42	22.6	30 Jan 31 Jul	3465
50	Do. 4.25pcIL '24	109	4.20	–	23 Feb 23 Apr	–

Public Board and Ind.

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
25	Met. Wtr. 3pc 'B'	45 xd	10.86	1.8	1 Mar 1 Sep	3361

FOREIGN BONDS & RAILS

Amount £m	Stock	Price £	Div % Gross	Yld	Last xd	Interest Paid	City-line
7	Greek 7pc Ass.	50	3.50	7.00	1.11	1 May 1 Nov	2763
4	Do. 6pc 28 Stb. Ass.	50	3	6.00	1.2	1 Feb 1 Aug	2762
–	Do 4pc Mixed Ass.	50	2	4.00	3.4	1 Apr 1 Oct	2761
1	Hung. '24 Ass.	80	2.75	3.57	3.5	1 May	2935
40	Hydro Quebec 15pc 2011	127	15.00	11.52	27.10	31 May 30 Nov	–
30	Iceland 14½pc Ln 2016	116	14.50	12.41	29.12	31 Jan 31 Jul	–
30	Ireland 9¾pc '91–96	90¼	10.74	11.90	21.8	1 Mar 1 Sep	3002

AMERICANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
9,827.4	Abbott Laboratories‡	43 xd	$1.40	2.1	11.7	Fb My Ag Nv	1503
278.5	♦Allegheny & W 1c.	536p	30c	3.5	–	–	–
1,834.1	Amax $1	15 xd	80c	3.4	7.8	Mr Jn Se De	1581
312.5	Ambase Corp $1	7	20c	1.7	28.11	Jan Mar Jn Dc	2915
988.0	Amdahl 5c.	941p xd	h10c	0.7	31.1	Nv Mr Jn Ag	–
3,138.7	Amer. Cyanamid $5	34½	$1.35	2.5	27.2	Mr Je Se De	–
18,571.7	Amer. Express 60c.	21¼ xd	84c	2.5	3.7	Fb My Ag Nv	1594
29,972.7	American T. & T. $1	27¾	$1.20	2.7	27.5	Fb My Ag Nv	1597
17,180.2	Ameritech $1	40¼	h$2.92	4.6	28.3	Fb My Ag Nv	–
–	♦Asiamerica Equity‡	544p	–	–	–	–	–
3,135.5	BankAmerica $1⅝	17 xd	60c	2.2	17.5	Fe My Au No	1744
2,120.3	Bankers N.Y. $1	26 xd	$2.12	5.0	31.3	Ap Jy Oc Jan	1745
13,272.2	Bell Atlantic $1	67	$4.40	4.2	27.6	Fe My Au No	–
16,964.7	BellSouth Corp	35¼	$2.52	4.5	6.7	Fe My Au No	–
845.7	♦Bethlehem Steel $8	11 xd	40c	2.2	6.2	Mar Jun S D	1821
–	♦Bio-Rad Labs. A	10⅛	–	–	–	–	–
633.4	Bowater Inc.	17¼	$1.12	4.1	6.6	Oc Ja Ap Jy	1884
797.1	Brunswick 75c.	8 xd	44c	3.1	20.7	F My Au N	1989
3,701.7	CPC Intnl 25c.	45	$1.80	2.5	25.9	Jan Ap Jly O	2263
133.8	California Engy.	735p	–	–	–	–	–
4,379.4	Campbell Soup 15c.	33 xd	92c	1.7	3.7	Oc Ja Ap Jy	–
1,749.9	Chase Manhattan $12½	21 xd	$2.36	7.0	27.7	Fb My Ag Nv	2109
2,119.7	Chem. Banking Corpn.	19	$2.72	9.1	12.6	Ap Jy Oc Ja	–
2,651.3	Chrysler $6¼	12 xd	$1.20	6.3	14.6	Mar Jun S D	2135
5,704.0	Citicorp $1	17 xd	$1.62	5.7	25.4	My Au N F	2141
2,721.3	Colgate-Palmolive $1	39 xd	s$1.48	2.4	20.7	F My Au N	2184
1,313.7	Cont'l Bank Corp $4	13	80c	3.9	31.5	Dc Mr Jn Sp	–
–	♦Corporate Data Scnce.	298p	–	–	–	–	–
977.3	Dana Corp. $1	21 xd	$1.60	4.6	29.8	Mr Jn Se De	2306
204.7	Data General	742p	–	–	–	–	–
5,179.1	Dun & Bradstreet $1	27¾	$2.00	4.5	13.2	Mr Jn Sp Dc	–
1,464.3	Eaton Corpn. 50c.	34¾	h$2.00	3.7	2.8	F My Au N	2410
586.4	Echlin Inc.	9¾	70c	4.5	30.6	JanAprJulOct	–
2,968.6	FPL Group 1c	22 xd	$2.28	6.4	23.11	MrJnSepDec	–
1,976.7	Fluor Corp 62½pc.	23⅝	16c	0.4	–	Ja Ap Jy Oc	2609
14,701.3	Ford Motor $1	27 xd	$3.00	6.8	28.7	Mar Jun S D	2615
37,071.6	Gen. Elect. 63c.	40½	$1.86	2.9	7.6	Ja Ap Jy Oc	2675
–	♦General Host Corp $1	375p	30c	5.1	13.12	–	–
3,550.4	Gillette $1	30⅛	96c	2.0	27.1	Mar Jun S D	2695
143.0	Gt American Bank 8¼ $1	436p	20c	2.9	28.10	Fb My Ag Nv	–
777.3	Greyhound $1½	20	$1.32	4.2	28.11	Ja Ap Jy Oc	2778

Continued on next page

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INSURANCES

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

LEISURE

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
26.2	Airtours 10p	149	7.0	6.5	3.7	Feb July	1540
120.0	Anglia TV	277	17.75	3.7	3.7	Aug Jan	1611
51.6	Aveco 1p	98	1.13	1.5	3.7	Oct Apr	1718
4.49	BCE Hldgs 5p	14	0.4	3.3	30.1	Sept Mar	1719
15.1	Barr & W.A.T. 'A'	389	25.0	6.4	4.9	Oct July	1764
16.3	Boosey & Hawkes	415	10.0	3.2	30.10	Jul Dec	1873
4.96	Border T.V.	490	12.0	5.4	27.12	Oct Feb	1878
181.7	Brent Walker 10p	358	11.0	4.1	16.10	July Jan	1945
133.0	Do 6pc Cv.Cm.Rd.Pf	101	6.0	7.9	30.10	Jan July	1946
52.5	Buckingham Int'l 10p	88	–	–	5.87	Jan May	3152
18.7	Campari Int. 20p	182	8.5	6.2	18.9	Oct May	2848
165.7	Capital Radio 10p	1015	18.0	2.4	11.12	Jan July	2068
1497.9	Carlton Comms	801	9.37	1.6	3.7	Apr Aug	2073
174.4	Do. 6.5p Prf	187	6.5	8.1	13.11	Jan July	4876
21.3	Castle Comms. 5p	425	8.5	2.7	30.10	Apr Dec	2079
193.3	Central TV	760	25.5	4.5	16.10	Nov May	2091
39.2	Chrysalis	141	3.43	3.2	17.7	Apr Aug	2134
165.7	Citywision 5p	146	0.5	0.5	2.10	Jan Nov	2150
8.13	Classic Tr'sns t0.20	12	–	–	–	–	1383
249.7	Compass Group 5p	375	9.0	3.3	19.6	Jan Jul Mar	1687
1,703.4	Euro Disneyland Fr10	1062	–	–	–	–	5372
69.1	European Leisure	84	1.5	2.4	28.11	Apr Jan	1413
13.2	Ex Lands 10p	56	0.5	1.1	25.4	May	2513
20.6	Expedier Leis. 20p	81	–	–	–	–	3932
28.7	Fairline Boats 10p	820	18.5	–	11.12	Jan. July	2534
[illegible]							

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING – Contd

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND – Contd

[illegible]

Finance, Land, etc

[illegible]

WATER

For Water Issues see London Recent Equities

OIL AND GAS

[illegible]

OIL AND GAS – Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES – Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
280.1	Malaysia Mng. 10c.	67	Q5c	1.8	2.10	Nov Aug	3272
16.1	Petaling SM1	160	z0180c	27.0	27.11	Dec July	3644
4.27	Sungei Besi SM1	125	Q70c	13.4	17.7	Aug Oct	4140
1.54	Tanjong 15p	90	–	–	6'81	–	–

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.
Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p.... y	91	+1
Craig & Rose £1.. y	830	.....
Finlay Pkg. 5p.... y	58	.....
Holt (Jos) 25p.... y	1348	–5

IRISH

Cap. 8½% Ln. 1991	£96¾	–¼
9pc Cap Ln. 1996	£96	.....
Fin. 13% 97/02	£115	.....
Arnotts	485	.....
Carrol (P.J.).... y	165xd	+2
Hall (R. & H.)	195	.....
Helton Hldgs.... y	99	.....
IRG	207xd	.....
United Drug	166	+1

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	41
Amstrad	6½
Astec (BSR)	5¼
BAT	67
BOC Grp	44
BTR	37
Barclays	40
Blue Circle	20
Boots	23
Bowaters	39
Brit Aerospace	46
British Steel	9
Brit. Telecom	22
Cadburys	31
Charter Cons	42
Comm Union	40
Courtaulds	31
Eurotunnel	65
FKI	8
FNFC	22
Gen Accident	92
GEC	19
Glaxo	60
Grand Met	44
Guardian	19
GKN	33
Hanson	18
Hawker Sidd	55
ICI	90
Jaguar	85
Ladbroke	25
Legal & Gen	31
Lex Service	26
Lloyds Bank	31
Lucas Inds	54
Marks & Spencer	16
Midland Bk.	26
Morgan Grenfell	38
Nat West Bk	23
P & O Dfd	51
Polly Peck	38
Racal Elect	20
RHM	39
Rank Org Ord	72
Reed Intnl	34
STC	25
Sears	9
SmKl. Beecham A	48
TI	38
TSB	9
Tesco	16
Thorn EMI	63
Trust Houses	23
T&N	16½
Unilever	57
Vickers	22
Wellcome	55

Property

Brit Land	27
Control Secs	5
Land Securities	45
MEPC	45
Mountleigh	13

Oils

Brit Petroleum	25
Burmah Oil	65
Charterhall	2½
Conroy Petlm	9
Premier	10½
Shell	37
Tuskar Res	12
Ultramar	28½

Mines

Lonrho	23
RTZ	45

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

POUND SPOT- FORWARD AGAINST THE POUND

Commercial rates taken towards the end of London trading. Belgian rate is convertible francs. Financial franc 58.10-58.20 Six-month forward dollar 4.97-4.92cpm 12 months 8.95-8.85cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

MONEY MARKETS

Dollar looks set for further fall

THE DOLLAR could fall to DM1.50 and to Y135.00 by the middle of the year, according to forecasts from two leading City economists. Mr Robert Thomas, of Midland Montagu Research, believes the the dollar will weaken to this level against the D-Mark, as the market remains bearish about the US currency, while Mr Neil MacKinnon, chief economist at Yamaichi, says Japanese investors are shifting funds into European equities, but are generally cautious about the US bond market at present, where yields are expected to rise. He adds that it is mainly political uncertainty depressing the yen, but this should soon end, leading to a fall in the dollar to the mid Y130's.

Mr MacKinnon suggests that once elections to the Japanese Lower House take place on February 18 the Bank of Japan is likely to increase its discount rate.

The interest rate pattern in the early months of the year points towards higher rates in Europe and Japan, but a probable easing of rates in the US and this will be the key to currency movements.

Mr Thomas argues that the West German Bundesbank is determined to have a strong D-Mark and will keep monetary conditions tight, as part of its anti-inflationary policy. At the same time the dollar needs to fall to narrow the US current account deficit and this is likely to be achieved through lower US interest rates.

UK clearing bank base lending rate 15 per cent from OCTOBER 5

STERLING INDEX

CURRENCY MOVEMENTS

£ IN NEW YORK

OTHER CURRENCIES

CURRENCY RATES

Sterling quoted in terms of SDR and ECU per £.
† European Commission Calculations.
* All SDR rates are for Jan.4

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.6380	1.6288	1.6123	1.5886	1.5490

IMM-STERLING $s per £

	Close	High	Low	Prev.
Mar	1.6172	1.6200	1.6066	1.6156
Jun	1.5928	1.5958	1.5820	1.5912
Sep	1.5718	1.5738	1.5620	1.5702

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

CHICAGO

GRANVILLE
SPONSORED SECURITIES

Capitalisation £000's	Company	Price	Change on week	Gross div (p)	Yield %	P/E
8124	Ass. Brit. Ind. Ord	342	+5	10.3	3.0	9.2
625	Armitage and Rhodes	25	0			
121396	Bardon Group (SE)	177xd	+3	4.3	2.4	17.2
19372	Bardon Group Cv. Pref. (SE)	111	+3	6.7	6.0	-
4718	Bray Technologies	78	0	5.9	7.6	6.9
	Bremhill Conv Pref	97	-1	11.0	11.3	-
	Bremhill 8¼ New C.C.R.P	98	-1	11.0	11.2	-
1170	CCL Group Ordinary	308xd	-2	14.7	4.8	3.8
2125	CCL Group 11% Conv Pref	170	-3	14.7	8.6	-
16740	Carbo Plc (SE)	212	+2	7.6	3.6	12.5
770	Carbo 7.5% Pref (SE)	110	0	10.3	9.4	-
-	Magnet Gp Non Voting A Cnv*	1.5sus	0	-	-	-
-	Magnet Gp Non Voting B Cnv*	0.75sus	0	-	-	-
9558	Isis Group	120	0	8.0	6.7	6.9
23189	Jackson Group (SE)	108	0	3.6	3.3	12.6
21444	Multihouse N.V.(AmstSE)	275	-5	-	-	-
1520	Robert Jenkins	149xd	+1	10.0	6.7	5.4
17760	Scruttons	370	0	18.7	4.0	9.8
9242	Torday & Carlisle	299	0	9.3	3.1	10.4
	Torday & Carlisle Conv Pref	104	0	10.7	10.3	-
3442	Trevian Holdings (USM)	80xd	+5	2.7	3.4	8.6
-	Unistrut Europe Conv Pref	160	0	9.3	5.8	-
5858	Veterinary Drug Co. PLC	355	0	22.0	6.2	9.4
6832	W. S. Yeates	305	0	16.2	5.3	25.4

Securities designated (SE) and (USM) are dealt in subject to the rules and regulations of The ISE. Other securities listed above are dealt in subject to the rules of TSA
These securities are dealt in strictly on a matched bargain basis. Neither Granville & Co. Limited nor Granville Davies Limited are market makers in these securities.
* These securities are dealt on a restricted basis. Further details available

Granville & Co. Limited
77 Mansell Street, London E1 8AF
Telephone 01-488 1212
Member of TSA

Granville Davies Limited
77 Mansell Street, London E1 8AF
Telephone 01-488 1212
Member of The ISE & TSA

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY JANUARY 5 1990						THURSDAY JANUARY 4 1990			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	% change since Dec.29 '89	Pound Sterling Index	Local Currency Index	% change local currency since Dec.29 '89	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989/90 High	1989/90 Low	Year ago (approx)
Australia (84)	156.77	+3.6	141.89	132.58	+4.0	5.14	155.88	141.78	132.24	160.41	128.28	144.77
Austria (19)	204.59	+12.3	185.18	180.38	+12.8	1.35	209.94	190.98	183.82	209.94	92.84	95.22
Belgium (63)	157.71	+2.0	142.75	138.07	+1.7	4.03	158.20	143.89	138.69	158.20	125.58	132.05
Canada (120)	153.15	+0.6	138.62	128.59	+0.7	3.11	153.17	139.32	128.77	154.17	124.67	127.51
Denmark (36)	244.09	+0.8	220.93	217.11	+0.2	1.45	242.98	221.01	217.29	244.09	165.35	158.95
Finland (26)	136.14	+2.1	123.22	114.71	+1.4	2.43	132.25	120.29	111.97	159.16	118.63	127.34
France (125)	157.12	+0.7	142.21	141.47	-0.1	2.66	157.97	143.69	142.38	157.97	112.57	117.51
West Germany (96)	126.81	+2.5	114.78	110.82	+1.9	1.90	127.74	116.19	111.71	127.74	79.56	88.33
Hong Kong (48)	117.43	+0.3	106.29	117.79	+0.4	4.84	118.44	107.73	118.82	140.33	86.41	115.49
Ireland (17)	193.67	+6.7	175.29	174.31	+5.9	2.49	193.42	175.93	174.71	193.67	125.00	127.61
Italy (96)	100.59	+2.2	91.04	94.90	+1.8	2.41	100.48	91.39	94.85	100.59	74.97	84.94
Japan (455)	194.18	-1.6	175.76	176.44	-1.7	0.46	197.28	179.42	178.68	200.11	164.22	189.75
Malaysia (36)	233.98	+2.2	211.78	243.89	+2.5	2.19	235.69	214.38	245.40	235.69	143.35	144.49
Mexico (13)	330.46	+1.5	299.11	970.11	+1.3	0.53	330.46	300.58	970.11	330.46	153.32	159.84
Netherland (43)	143.82	+0.0	130.17	124.49	-0.8	4.28	145.66	132.49	126.32	145.66	110.63	112.29
New Zealand (18)	74.65	+3.6	67.57	66.28	+2.9	5.32	75.28	68.47	66.95	88.18	62.64	68.46
Norway (24)	214.01	+7.1	193.71	190.19	+6.3	1.43	212.78	193.52	190.02	214.01	139.82	146.95
Singapore (26)	185.94	+4.9	168.29	163.36	+5.3	1.78	187.00	170.09	163.60	187.00	124.57	128.31
South Africa (60)	203.01	+3.3	183.75	158.48	+4.2	3.57	197.35	179.51	154.34	203.01	115.55	116.95
Spain (43)	163.77	+0.4	148.23	135.48	+0.2	3.89	165.19	150.25	136.97	169.75	143.14	144.98
Sweden (35)	200.30	+4.3	181.30	183.25	+4.1	1.87	197.84	179.95	181.30	200.30	138.45	142.55
Switzerland (62)	96.25	+2.3	87.12	91.62	+1.9	1.95	96.98	88.21	92.65	96.98	67.81	78.16
United Kingdom (307)	163.15	+2.8	147.67	147.67	+1.2	4.25	162.84	148.12	148.12	163.15	133.28	134.52
USA (542)	142.55	-0.3	129.03	142.55	-0.3	3.29	144.01	130.99	144.01	146.29	112.13	114.29
Europe (992)	145.50	+2.2	131.70	129.90	+1.2	3.27	145.87	132.68	130.69	145.87	112.63	114.42
Nordic (121)	193.11	+3.1	174.79	167.15	+2.6	1.69	191.26	173.97	166.14	193.11	137.95	141.16
Pacific Basin (667)	189.91	-1.4	171.89	172.51	-1.4	0.70	192.75	175.32	174.59	194.72	160.44	164.84
Euro-Pacific (1659)	172.33	-0.2	155.98	155.52	-0.5	1.58	174.18	158.42	157.04	174.18	141.56	156.65
North America (662)	143.08	-0.3	129.51	141.67	-0.3	3.28	144.46	131.39	143.04	146.66	112.79	115.00
Europe Ex. UK (685)	133.43	+1.8	120.77	119.05	+1.2	2.61	134.17	122.03	119.87	134.17	96.30	101.59
Pacific Ex. Japan (212)	138.56	+2.7	125.41	123.47	+3.0	4.88	138.62	126.08	123.71	140.05	111.93	126.11
World Ex. US (1852)	172.06	-0.1	155.73	154.89	-0.4	1.65	173.77	158.05	156.30	173.77	141.49	155.25
World Ex. UK (2087)	160.20	-0.5	145.00	150.99	-0.6	1.95	162.00	147.35	152.52	162.00	136.98	140.00
World Ex. So. Af. (2334)	160.18	-0.2	144.99	150.59	-0.4	2.15	161.84	147.20	152.06	161.84	136.67	139.63
World Ex. Japan (1939)	144.65	+0.8	130.92	137.43	+0.5	3.33	145.52	132.36	138.42	145.52	114.51	115.31
The World Index (2394)	160.44	-0.2	145.22	150.64	-0.4	2.16	162.05	147.40	152.06	162.05	136.68	139.49

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

CONSTITUENT CHANGES: Deletions: Comp. Industrielle (France) and Siossigeno (Italy) (both 4/1/90).

EUROPEAN OPTIONS EXCHANGE

TOTAL VOLUME IN CONTRACTS : 49,352
A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	15	Comm. Bk N. East	15	Northern Bank Ltd	15
Adam & Company	15	Co-operative Bank	*15	Norwich Gen. Trust	15
Allied Trust Bank	15	Coutts & Co	15	Nykredit Mortgage Bank	15½
Allied Irish Bank	15	Cyprus Popular Bk	15	PRVA Thaokan Limited	15
● Henry Ansbacher	15	Dunbar Bank PLC	15	Provincial Bank PLC	16
Associates Cap Corp	14	Duncan Lawrie	15	Roxburghe G'rantee	15½
Authority Bank	15	Equatorial Bank plc	15	Royal Bk of Scotland	15
● B & C Merchant Bank	15	Exeter Trust Ltd	15½	Royal Trust Bank	15
Bank of Baroda	15	Financial & Gen. Bank	15	● Smith & Williamson Secs.	15
Banco Bilbao Vizcaya	15	First National Bank Plc.	16	Standard Chartered	15
Bank Hapoalim	15	● Robert Fleming & Co.	15	TSB	15
Bank Credit & Comm	15	Robert Fraser & Ptnrs.	15½	● United Bk of Kuwait	15
Bank of Cyprus	15	Girobank	15	United Mizrahi Bank	15
Bank of Ireland	15	● Guinness Mahon	15	Unity Trust Bank Plc	15
Bank of India	15	HFC Bank plc	15	Western Trust	15
Bank of Scotland	15	● Hambros Bank	15	Westpac Bank Corp.	15
Banque Belge Ltd	15	Hampshire Trust Plc	15½	Whiteaway Laidlaw	15
Barclays Bank	15	Heritable & Gen Inv Bnk.	15	Yorkshire Bank	15
Benchmark Bank PLC	15	● Hill Samuel	§15		
Brit. Bk of Mid East	15	C. Hoare & Co.	15		
● Brown Shipley	15	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	Meghraj Bank Ltd	15		
City Merchants Bank	15	McDonnell Douglas Bnk.	15		
Clydesdale Bank	15	Midland Bank	15		
		Mount Banking	15		
		Nat Bk. of Kuwait	15		
		NatWestminster	15		

● Members of British Merchant Banking & Securities Houses Association. * Deposit now 5.9% Sanwise 8.5%. Top Tier-£10,000+ instant access 12.8% § Mortgage base rate. § Demand deposit 9%. Mortgage 15.2% - 15.95%

JOTTER PAD

LONDON RECENT ISSUES

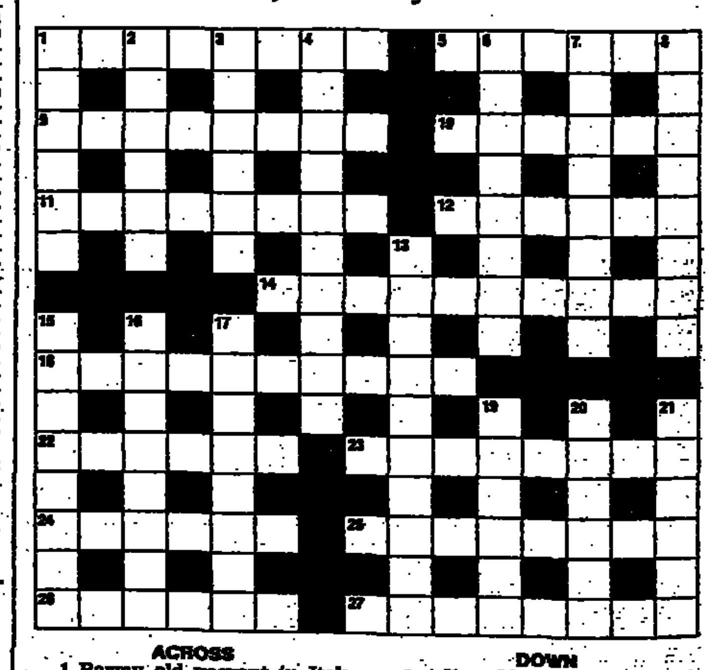
EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

CROSSWORD

No.7,132 Set by MUTT



ACROSS

1 Barmy old vagrant in Italy (8)
5 Carried camel-fashion (6)
9 A lot of marriages result in this (8)
10 West moved away from London street for warmth (6)
11 Mutual give and take of men on board (8)
12 Get in, I travel light (6)
14 Ball almost got you and me, dear, spinning past top of terrace railing (10)
18 A reply is to change Paul's way of writing (10)
22 Former Euro-politician and model get let off (6)
23 Animal, a tiny creature, has run away (8)
24 Coming and going, cause a sensation in the river (3-3)
25 Left relative to go round the National Institute (8)
26 Stupefied: won't start to get rough (6)
27 Some place not a Pharaoh's empty tomb (8)

DOWN

1 Adjustable pedals slipped (6)
2 Spite shown to married girl (6)
3 Hound could do with a blanket (6)
4 Mother's got a new beagle — appears fragile (10)
6 Vertical members may use these pianos (8)
7 Wasteful to nudge one, girl (8)
8 Overshadowed man challenged to come outside (8)
13 What could be quainter, an enforced isolation (10)
15 Gun — bang! bang! (8)
16 Oblique affectation to some extent (4-4)
17 Arrest messenger causing an obstruction (8)
19 Gathering in more sheep (6)
20 An advocate of Shakespeare (6)
21 Look for a rainbow in the south, wot? (6)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday January 20.

WORLD STOCK MARKETS

INDICES

NEW YORK

DOW JONES	Jan 5	Jan 4	Jan 3	Jan 2	1989/90 HIGH	1989/90 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2773.25	2796.08	2809.73	2810.15	2810.15 (2/1/90)	2144.64 (3/1/89)	2810.15 (2/1/90)	41.22 (2/7/32)
Home Bonds	92.93	93.01	93.04	92.98	94.15 (2/8/89)	87.35 (23/3/89)	—	—
Transport	1179.23	1187.77	1191.50	1201.10	1532.01 (5/9/89)	959.95 (3/1/89)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	227.43	230.76	234.15	236.23	236.23 (2/1/90)	181.84 (24/2/89)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2810.15 (2821.46) Low 2758.11 (2766.42)

STANDARD AND POOR'S

	Jan 5	Jan 4	Jan 3	Jan 2	1989/90 HIGH	1989/90 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	352.20	355.66	358.76	359.69	359.80 (9/10/89)	275.31 (3/1/89)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	404.20	407.59	410.40	411.20	411.20 (2/1/90)	318.66 (3/1/89)	411.20 (2/1/90)	3.62 (21/6/32)
Financial	31.38	31.67	31.87	31.81	35.24 (9/10/89)	24.30 (3/1/89)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	194.64	196.29	197.80	198.00	199.34 (9/10/89)	154.98 (3/1/89)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	382.45	382.16	382.42	381.53	397.03 (10/10/89)	305.24 (3/1/89)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	458.22	459.39	460.90	459.33	485.73 (9/10/89)	378.56 (3/1/89)	485.73 (9/10/89)	54.87 (31/10/72)

	Dec 29	Dec 15	Dec 8	year ago (approx.)
Dow Industrial Div. Yield	3.87	3.89	3.90	3.70

	Jan 3	Dec 27	Dec 20	year ago (approx.)
S & P Industrial div. yield	2.86	2.95	2.90	3.17
S & P Indl. P/E ratio	15.19	14.74	14.51	13.00

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Philip Morris	3,127,400	42⅛	+ ¼
Pan Am Corp	2,436,200	3¼	+ ½
IBM	1,890,200	99¾	− ¼
Am T&T	1,706,200	44⅝	− ⅜
Gen Electric	1,549,700	65⅝	− ⅝
Gt Nthn Nekoosa	1,394,900	60⅝	− ⅞
Fannie Mae	1,271,000	36	----
McDonalds	1,205,600	33¼	− ⅝
MFS Intermed	1,193,700	8¾	+ ⅛
Natl Ed Corp	1,174,200	7⅛	+ ¼

TRADING ACTIVITY

† Volume Millions	Jan 5	Jan 4	Jan 3
New York	158.530	177.000	192.330
Amex	14.361	12.868	14.326
NASDAQ	(u)	147.950	152.664
Issues Traded	1,962	1,971	1,999
Rises	573	639	877
Falls	936	914	727
Unchanged	453	418	395
New Highs	36	54	116
New Lows	8	13	7

CANADA

TORONTO	Jan 5	Jan 4	Jan 3	Jan 2	1989/90 HIGH	1989/90 LOW
Metals & Minerals	3399.97	3453.05	3452.90	3427.33	3919.2 (1/9/89)	3207.5 (3/1/89)
Composite	3990.37	4000.91	4009.47	4004.37	4037.8 (6/10/89)	3350.5 (6/1/89)
MONTREAL Portfolio	2035.23	2049.41	2060.90	2054.14	2069.68 (10/10/89)	1677.48 (3/1/89)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Jan. 5	Jan. 4	Jan. 3	Jan. 2	1989/90 HIGH	1989/90 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1710.8	1706.8	1686.2	1654.7	1781.8 (29/8/89)	1412.9 (7/4/89)
All Mining (1/1/80)	860.8	856.2	852.3	838.8	875.1 (29/8/89)	652.6 (7/4/89)
AUSTRIA						
Credit Aktien (30/12/64)	542.67	551.50	556.54	526.59	556.54 (3/1/90)	219.5 (2/1/89)
BELGIUM						
Brussels SE (1/1/80)	6572.50	6596.35	6560.06	6490.06	6805.28 (26/9/89)	5519.30 (4/1/89)
DENMARK						
Copenhagen SE (3/1/83)	362.21	362.14	360.33	358.77	363.22 (29/12/89)	275.49 (27/2/89)
FINLAND						
Unitas General (1975)	605.3	598.5	596.4	590.5	815.8 (18/4/89)	580.8 (23/11/89)
FRANCE						
CAC General (31/12/82)	554.7	550.2	(u)	553.0	561.6 (11/10/89)	417.9 (4/1/89)
CAC 40 (31/12/87)	1994.36	2096.42	1979.89	-	-	-
GERMANY						
FAZ Aktien (31/12/58)	755.91	761.97	774.96	746.24	774.96 (3/1/90)	535.78 (27/2/89)
Commerzbank (1/12/53)	2231.2	2251.1	2291.3	2203.6	2291.3 (3/1/90)	1595.7 (27/2/89)
DAX (30/12/87)	1820.00	1835.88	1869.66	1814.38	1869.66 (3/1/90)	1271.70 (23/2/89)
HONG KONG						
Hang Seng Bank (31/7/64)	2839.94	2867.95	2858.72	2838.07	3309.64 (15/5/89)	2093.61 (5/6/89)
IRELAND						
ISEQ Overall (4/1/88)	1855.95	1855.96	1845.35	1792.47	1855.96 (4/1/90)	1360.64 (10/1/89)
ITALY						
Banca Com. Ital. (1972)	701.12	700.24	(u)	(u)	734.84 (31/8/89)	577.49 (28/2/89)
JAPAN						
Nikkei (16/5/49)	38274.76	38712.88	(c)	(c)	38915.87 (29/12/89)	30183.79 (5/1/89)
Tokyo SE (Topix) (4/1/68)	2834.61	2867.70	(c)	(c)	2884.80 (18/12/89)	2366.91 (6/1/89)
2nd Section (4/1/68)	3939.21	3949.88	(c)	(c)	3949.88 (4/1/90)	2774.38 (27/3/89)
MALAYSIA						
KLSE Composite	582.58	566.06	582.68	571.88	-	-
NETHERLANDS						
CBS Ttl Rtn Gen. (End 1983)	262.2	265.8	264.0	265.7	272.7 (21/9/89)	208.3 (3/1/89)
CBS All Shr (End 1983)	201.1	203.9	206.3	203.9	210.5 (8/9/89)	166.7 (1/3/89)
NORWAY						
Oslo SE (2/1/83)	731.16	735.35	724.69	701.67	735.35 (4/1/90)	467.17 (2/1/89)
PHILIPPINES						
Manila Comp (2/1/85)	1124.19	1119.33	1109.74	1115.45	1396.26 (30/11/89)	804.62 (6/2/89)
SINGAPORE						
SES All-Singapore	426.17	427.74	421.69	417.07	-	-
SOUTH AFRICA						
JSE Gold (28/9/78)	2095.0	2019.0	2017.0	2028.0	2254.0 (12/12/89)	1291.0 (15/2/89)
JSE Industrial (28/9/78)	2894.0	2853.0	2807.0	2795.0	2894.0 (5/1/90)	1961.0 (3/1/89)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	915.11	928.82	908.59	(c)	1007.80 (3/4/89)	844.75 (11/12/89)
SPAIN						
Madrid SE (30/12/85)	299.21	302.85	301.43	297.55	328.93 (13/9/89)	268.61 (1/3/89)
SWEDEN						
Jacobson & P. (31/12/56)	4449.5	4364.4	4290.9	4248.7	4660.3 (16/8/89)	3333.9 (3/1/89)
SWITZERLAND						
Swiss Bank Ind (31/12/58)	775.6	783.1	782.5	(c)	829.1 (6/9/89)	613.1 (3/1/89)
TAIWAN**						
Weighted Price (30/6/66)	9862.42	9853.15	(c)	(c)	10773.11 (25/9/89)	4873.01 (5/1/89)
THAILAND						
Bangkok SET (30/4/75)	918.67	902.07	897.34	899.61	918.67 (5/1/90)	386.73 (2/1/89)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	571.0	569.1	569.0	571.0 (4/1/90)	487.6 (13/6/89)

**Saturday Dec. 30: Taiwan Weighted Price: (c) Korea Comp Ex (c)
‡ Subject to official recalculation.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000. JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Friday January 5 1990

	Stocks Traded	Closing Prices	Change on day
Sanyo Elctrc	40.9m	1,030	-30
Toyo Menka	29.5m	1,110	-40
Mitsui OSK Lns	23.7m	1,130	-30
Marubeni	18.4m	1,110	-80
C.Itoh	17.6m	1,210	-80
Sumitomo Elc	16.2m	1,760	0
Fuji Elctrc	16.0m	1,200	+10
MHI	13.4m	1,150	0
NEC	10.9m	1,930	-20
Kurabo	9.9m	910	+21

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4pm prices January 5

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	24	AAR	.48	1.3	21	245	36¼	35⅝	35⅞	+ ⅛
9⅝	8½	ACM n	1.26	13.		106	9½	9⅜	9½	
11⅝	10⅞	ACMIn	1.26	11.		784	11¼	11⅛	11¼	
9⅞	9	ACM M n	1.01	11.		562	9⅛	9	9⅛	+ ⅛
11½	10	ACM Sc	1.26	11.		1032	11¼	11⅛	11¼	+ ⅛
9⅝	8⅝	ACMSp	1.01	11.		664	9⅛	9	9	– ⅛
18⅞	11½	AL Lab	.16	.9	19	156	18⅛	18⅜	18⅜	– ⅜
4⅛	3⅛	AMCA	.12e	3.4	9	38	3⅝	3½	3½	– ⅛
6⅛	3⅞	AM Intl			6	291	4	3⅞	3⅞	– ⅛
23½	16⅝	AM In pf	2	11.		40	17⅝	17½	17⅝	+ ⅛
107¼	52½	AMR			7	7782	59¼	58⅛	59⅝	– ⅞
27	25	ANR pf	2.67	10.		149	26	25⅞	26	+ ¼
6½	3⅛	ARX				90	3⅝	3½	3½	
59¼	38	ASA	3a	5.2		1562	57¾	56⅝	57¼	+ 1⅛
31¼	16⅛	AVX	.24	.8	30	3698	31¼	31	31⅛	+ ½
70⅛	49¼	AbtLab	1.40	2.0	19	1298	69¼	68⅜	68⅝	– ¼
18¼	11⅜	AbitibI g	.50			114	11⅝	11½	11½	– ⅛
13	9¼	AcmeC	.40	3.5	15	40	11½	11⅛	11½	+ ⅛
9⅞	6	AcmeE	.32	3.5	12	10	9¼	9⅛	9⅛	
39½	22	Acuson			21	642	31⅞	31½	31⅝	
16½	12⅞	AdaEx	2.06e	13.		79	16¼	16⅛	16¼	
15⅛	6½	Adobe				401	13⅛	12⅞	13	– ⅛
20¼	16½	Adob pf	1.84	9.6		27	19⅜	19⅛	19⅛	– ½
21⅞	19⅞	Adob pf	2.40	11.		26	21¼	21⅛	21⅛	– ⅛
10½	7⅛	AMD				7533	7⅝	7⅜	7⅝	– ⅛
35	28½	AMD pf	3	10.		303	30⅛	29¾	29¾	– ⅜
10⅛	6⅝	Advest	.16	2.1	11	20	7⅝	7½	7½	
62½	46⅝	AetnLf	2.76	4.8	9	1452	58	57¼	57½	– ⅜
14	11	AhIPb	.24	2.1		1227	11⅝	11½	11½	– ⅛
25	15¾	Ahmans	.88	4.5	8	3739	18⅝	18¼	18½	– ¼
3⅞	2¼	Aileen				72	2½	2⅜	2½	+ ⅛
49⅝	40	AirProd	1.32	2.7	12	1838	u49¾	48⅝	49½	+ ⅝
39⅝	20⅞	AirbFrt	.60	1.6	13	146	37⅛	36¾	37	+ ¼
25⅛	14¾	Alrcas			11	692	19⅜	18⅞	18⅞	– ¾
[illegible]										

Continued on Page 29

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
12¼	4½	Wyse				1364	9⅞	9⅜	9⅞	
		– X–Y–Z –								
69	54⅞	Xerox	3	5.1	16	1996	59⅞	59¼	59½	+ ⅛
49	44½	Xerox pf4.13		8.5		4	48½	48½	48½	+ ½
44¼	23½	XTRA	.72	2.7	22	416	27½	26⅝	27⅛	+ ⅝
33	21⅞	XTRA pf1.94		8.2		424	23¾	23⅜	23¾	+ ¼
4¼	2	Zapata				546	2⅜	2⅝	2⅝	– ⅛
21½	11½	ZenithE				582	12⅞	12⅝	12⅝	– ⅛
21½	16¾	ZenNtl	.84	4.5	9	27	18⅝	18⅝	18⅝	– ⅛
10	6½	Zenix	1.20	16.		149	7⅝	7¼	7⅜	+ ⅛
18½	13⅞	Zero s	.40	2.4	16	792	16¾	16⅜	16¾	
44¼	25¾	Zurnin	.76	1.8	20	216	42⅝	41⅝	42⅝	+ 1⅛
12⅝	10	Zweig	1.21e	9.9		984	12⅜	12⅛	12¼	+ ⅛
9⅞	8¼	ZweigTl	.96	9.7		920	9⅞	9½	9⅞	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices January 5

Stock	Div.	E	P/ Sls 100s	High	Low	Close	Chng
Pred B		200	1	5	5	5	
Pred A	.10		61	5⅞	5⅞	5⅞	+ ⅛
PrcCm s			84	5⅞	5⅛	5⅞	
Prism		13	5	3⅝	3⅝	3⅝	– ⅛
ProMed	.42	14	2	5½	5½	5½	+ ⅛
ProfCre		13	48	5½	5⅛	5⅛	
		– R–R –					
Ragan	.12		1	20⅝	20⅝	20⅝	– ⅛
ReCap		13	89	15⅛	15	15	– ⅛
Riedel		21	20	11⅛	11	11⅛	+ ⅛
Rogers	.12		29	24	24	24	– ⅛
Rudick	.40a	14	13	29¾	29½	29½	– ¼
		– S–S –					
Salem		2	15	8⅛	8⅛	8⅛	+ ⅛
Scheib	.36	87	2	13⅜	13⅜	13⅜	– ⅛
SbneA	.24	13	11	14⅞	14⅜	14⅜	
SpedOP		3	20	3¾	3¾	3¾	+ ⅛
Spelling		31	133	12½	12⅛	12⅛	
SterlEl	.08e	8	16	2⅛	2⅛	2⅛	– ⅛
SterlSft		12	115	9	8⅞	8⅞	– ⅛
Synaloy	.40	6	42	10⅛	10⅛	10⅛	
		– T–T –					
TIE			961	1⅜	1⅛	1⅜	

NASDAQ NATIONAL MARKET

4pm prices January 5

Stock	Div.	Sales 100s	High	Low	Last	Chng
Wolohn	.28b	9 113	17	16¾	16¾	– ¼
WWEx h		1399	13⅝	13½	13⅝	+ ⅛
Worthg	.56	17 1564	23⅛	22⅞	23⅛	
Wyman	.60	380	14⅛	14⅛	14⅛	
		– X–Y–Z –				
XL Dta s		7 271	9¾	9¼	9¾	+ ¼
XOMA		3219	28	26⅛	25½	– ½
Xicor		7 948	4	3 11-16	3¾	– ⅛
YanEnS	.76e	14 160	21⅞	21	21½	– ⅛
YelowF	.76	12 568	26¾	26⅛	26½	– ⅛
YorkRs		19 980	u10⅛	9⅞	10⅛	+ ⅛

FINANCIAL TIMES Monday January 8 1990

The Business Column

Pitfalls and promise for investors in the East

So, with a spring in your step you are thinking of investing in Eastern Europe. And why not?

If the Soviet Union is included it is potentially a larger market than the European Community, crying out for good quality consumer goods, personal computers, televisions and telecommunciations.

Moreover, there are some East European gems: companies which could become competitive with the help of Western management and technology.

But before you dust off your phrase book and set off for lands beyond the Berlin Wall, promising the kids you will bring them back a lump to show off in the school play ground, it may be worth considering some of the possible pitfalls of setting up joint-ventures in the East.

Although the revolutions of 1989 were united by the common thread of opposition to the single party state, they are likely to produce a diversity of outcomes. It is becoming even less appropriate to talk of a single Eastern Europe.

States are moving towards political and economic reform at different paces. Poland has already had free elections and they are due soon in Hungary. But in other countries they are some way off.

Joint ventures

While Poland and Hungary are talking about privatisation as well as joint-ventures, East Germany does not even have a law on joint ventures. The Czechoslovak statute on joint ventures, which implies a 40 per cent tax on profits, is considerably more restrictive than the Polish law.

Joint-ventures often mean giving the host ministry and company considerable management control. This raises a number of tricky questions.

How can Western companies protect their investment, when there is no stock market to allow companies to sell out if the venture falters, fails or is wound up? Managers of some joint ventures admit they would not have a leg to stand on if the sponsoring ministry suddenly decided to close it down.

Although there is a widespread move towards a market oriented economy, joint ventures will still have to operate within the planning system. Getting managers to think in terms of profitablity and market measures of performance, rather than quantity of output and planned measures of performance, may be difficult.

Assuming you succeed, how do you repatriate the profit? How do you turn a profit in domestic currency into a usable profit in dollars or sterling, when none of these currencies are convertible? Companies generally have to engage in imaginative forms of accounting. If you make personal computers in Poland you might have to accept payment in a share of Polish furniture exports.

If you find Western accounts slightly confusing, get ready for a shock if you try to grapple with the accounts of Polish state owned enterprises.

Accountancy

Some Western accountants say East European accounts are merely unfamiliar. Others warn that business services such as accountancy hardly exist. In some countries accountancy codes and principles are only just being developed. Get used to the idea that you may have to trade for some time without a profit and loss account or a flow of funds statement.

If you are really going into the East you should plan to be self sufficient. You need gradually to reduce your reliance on supplies from the the West. But how are you going to get your supplies delivered at the right time and the right quality in a system used to dealing in long lead times and putting quantity above quality?

Finally, get ready to invest quite a lot in production technology and training. Most manufacturing joint-venture operators say training is one of the main expenses. Managers need training in general business, marketing and financial skills. Supervisors and shopfloor workers need technical skills and training in quality management.

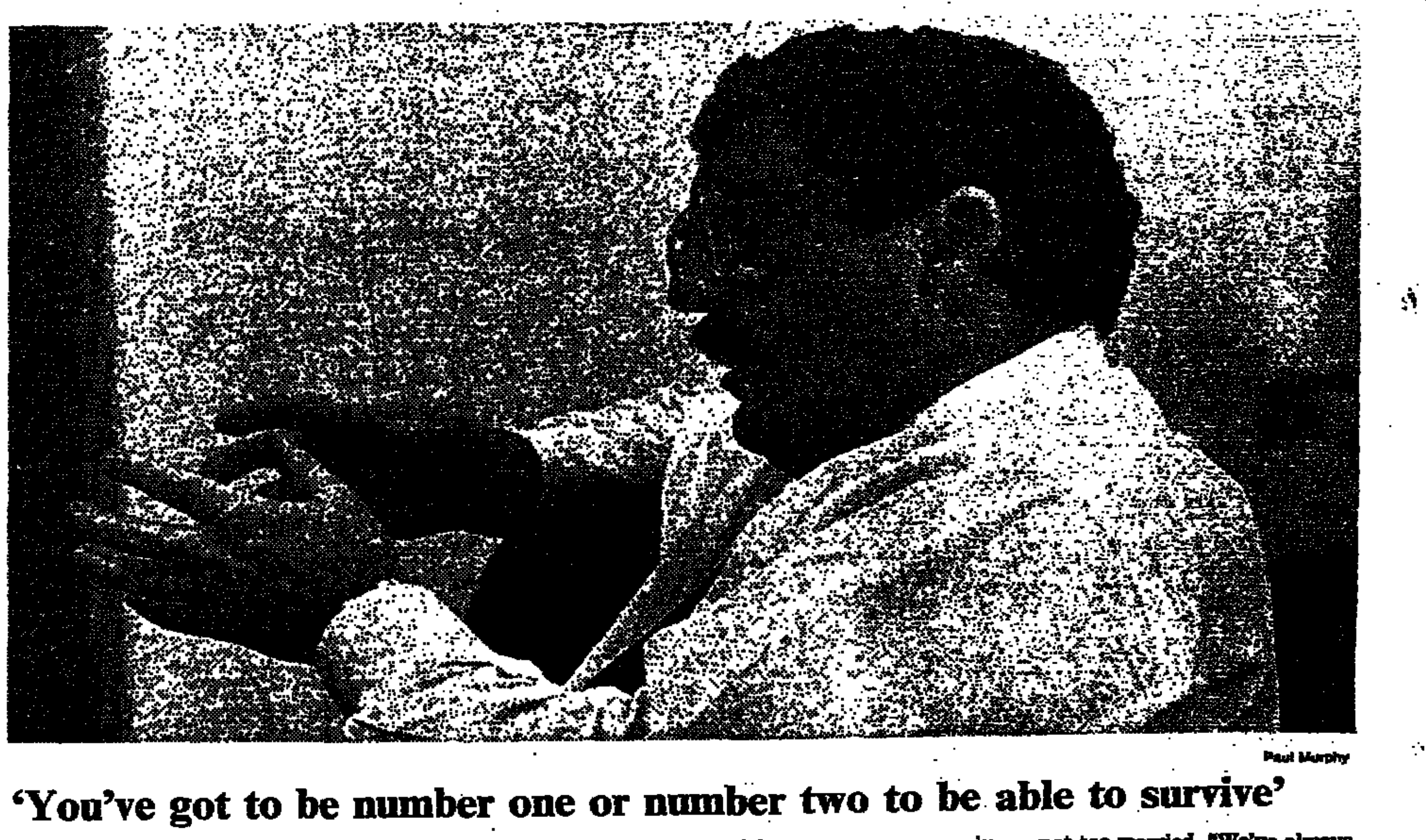
It may be your chance to participate in one of the great movements of history. But it will be no bed of roses.

Charles Leadbeater

THE MONDAY INTERVIEW

An earnest talker in an expansive mood

Richard Evans, the new chief executive of British Aerospace, talks to **Paul Betts** and **David White**



Paul Murphy

'You've got to be number one or number two to be able to survive'

Dick Evans gives the impression of a man in a hurry. The battered Samsonite suitcase dumped on his desk at British Aerospace is indicative not just of someone always on the move, but also of someone at ease in a job he has held for barely a week.

Mr Evans has taken over, in succession to Admiral Sir Raymond Lygo, as chief executive of one of Britain's biggest manufacturers. A sharp contrast to the suave and worldly Sir Raymond, Mr Evans is a shirt-sleeved, stocky, plain speaking man with strong traces of his north of England origins, an earnest talker, his speech peppered with "you know" and "I *mean*".

Until recently he has been unknown to the general public, although he has headed BAe's huge military activities. Now he is taking centre stage alongside Professor Roland Smith, BAe's ebullient chairman, at a time when the group is engulfed in controversy about the terms of its 1988 Rover acquisition, uncertainty over the future of the defence business which makes up half its operations and a large part of its profits, and continuing manoeuvrings at the Airbus consortium.

Despite this, he brims with confidence. His role, he says, is different from that of his predecessor: "I think Ray Lygo really went through the processes of consolidating the base of the business and has really been the architect of a number of quite major rationalisations." The way forward, he adds, is expansion and development rather than more contraction.

"I'm in many ways pretty damn lucky to be coming into this job at a time when a lot of that process of consolidation has already been achieved and when you can really start looking forward to making some sort of capital out of all the work that has gone in the last 10 years."

Strategic alliances with other European, and eventually US, aerospace and defence groups are at the front of his mind. He sees a "step change" from the ad hoc project-by-project alliances that BAe engaged in during the 1970s and 1980s.

BAe's guided weapons business is already being merged with that of Thomson of France. Once that is completed, Mr Evans does not rule out cross-shareholding links with West Germany's Daimler-Benz, which now also includes the MBB aerospace company. BAe and Daimler have so much in common that "a way forward that creates an association of some sort between those two companies must be likely."

In the early 1990s this trend will largely be "European-driven," he says. "But it cannot ultimately be successful without actually having an association of one shape or another with the US."

At a time when many people would say conglomerates with diverse activities were going out of style, Mr Evans acknowledges that BAe was "moving towards a form of conglomeracy." But he quickly adds that the concept "doesn't worry us or frighten us."

"In the various of the markets which you choose to operate in, you really have got to be at the top of that sector, you know; you've got to be number one or number two to be able to survive in it . . . There is no mileage in being sixth, seventh or eighth, or in the second division in any sector.

"The smart companies are the companies who recognise that that's where they are in a particular sector and either do something to make themselves number one or number two or actually get out of it."

But what about Rover? Mr Evans accepts that the motor subsidiary is far from that top position – except in the four-wheel drive market, where it should capitalise on Land Rover's potential. The Rover group is "well on the way" to becoming a successful "niche player," he claims.

"The drive in Rover is to produce a high quality British motor car and there is still an awful lot to be attached to a British quality product in the marketplace of the world."

Although he would not be drawn on the political row over the price paid for Rover, he says BAe would not have taken the car company over if it had not felt Rover was viable. The acquisition completely changed the asset base of BAe, gave it a "shorter-term realisation" business than its traditional aerospace operations – and, with Honda's 20 per cent stake in Rover, provided a Japanese link on which it can now build.

According to Mr Evans, it is too early to say if the Honda relationship, which includes a similar BAe stake in Honda's UK operation, would extend to other activities. But, he says: "We're talking to other Japanese companies on the civil side of the business and even other companies on the military side."

In the traditional aircraft sector, Mr Evans has brought the commercial and defence activities, which were being run separately, back under the same umbrella.

"We now have an aerospace business and a car business. That is how I wanted it to be organised."

The big change is that civil aircraft have become the growth side of the aerospace business. The commercial success of Airbus, in which BAe is a partner, has led the company to reassess the importance of the European venture. Mr Evans goes so far as to say that "Airbus could be one of the biggest companies in Europe, if not *the* biggest."

Airbus now needs to convert its marketing success into financial success. Moreover, he suggests that Airbus is likely to be turned into a more profit-oriented company following Daimler-Benz's takeover of MBB, another Airbus partner. He claims this marks "a very significant turning point not fully recognised at present." The similarity in culture between BAe and Daimler-Benz could constitute the basis of a Anglo-German axis to influence the future direction of the four nation consortium.

Despite this optimism, Airbus continues to be plagued by wrangling between the various partners and rivalries between their governments. The consortium is still looking for a new finance director following the recent resignation of Mr Robert Smith, a former BAe executive. Mr Evans says that the squabbles that have plagued Airbus "will continue but on a diminishing scale as the company and the partnership mature."

Mr Evans says the commercial side of BAe's aerospace activities will be "interesting to watch." In the 1990s, he expects BAe to get the payback from its long term investments in its own aircraft as well as Airbus. This will enable BAe to reinvest its commercial aerospace profits in the civil aircraft business, without drawing on cash from other sectors.

Defence still remains the bedrock of BAe's profits. But its range of military activities from fast jets to missiles and munitions are now coming under pressure as a consequence of East-West détente and speculation about budget cuts. "Nobody knows what is going to happen. The whole scenario at the present time is in a state of complete flux. Nobody could draw conclusions from the central European scene at the moment and sensibly and effectively plan forward."

However, he argues that BAe is relatively well placed because of its "significant slice of involvement" in defensive projects that would be less affected by disarmament – which include, he says, the European Fighter Aircraft, BAe's most significant new military programme.

Even if West Germany, currently arguing with Britain over the EFA radar, decides to pull out of the four-nation fighter programme – and Mr Evans sees "absolutely no indication" that it will – he claims it would not be "Doomsville."

"It is not actually the end of the world for British Aerospace or for the EFA programme."

Another worry of commentators has been BAe's heavy exposure to Saudi Arabia, where contracts headed by BAe are expected to total £15bn. Mr Evans is apparently not too worried. "We've always been heavily dependent on a small number of clients," he says, confident that even an unexpected political upheaval would not affect the support side of the project, which is the most important money-earner.

"I honestly can't see the situation in which the Saudis are likely to up stumps." He is hoping for further openings in Saudi Arabia and other Middle Eastern countries. This includes Iran, to which Britain currently bans arms sales, but which could become, he believes, a very large market during this decade.

The current climate in the defence industry has evidently not shaken BAe's intention of reinforcing its military side in Europe's process of restructuring. But its decision not to join Thomson in a bid for Ferranti International suggests a cautious approach.

"There were many advantages to us in having Ferranti, but not on any terms and not at any price."

This does not detract from Mr Evans' belief in seizing opportunities and taking calculated risks. The opportunities have to to be recognised when they come along. "If we are not capable of doing that, we will wither on the vine."

PERSONAL FILE

1942	Born in Blackpool; educated at Royal Masonic School, Hertfordshire
1960	Civil servant
1967	Government contracts officer, Ferranti
1969	Contracts officer at British Aircraft Corporation at Warton, Lancashire, rising to commercial director
1979	Set up Jaguar aircraft production in India
1981	Assistant managing director, British Aerospace Warton division, including responsibility for Saudi Arabia
1987	BAe board as marketing director
1988	Chairman, BAe's defence companies
1990	Chief executive, British Aerospace

Civil liberties need sensitive court hands

JUSTINIAN

In unveiling its plans for constitutional reform the Labour party has persevered with its long standing aversion – not to say antipathy – towards the judiciary in respect of the fundamental freedoms of the individual. A Labour-inspired Charter of Rights would distinctly not include either a constitutionally guaranteed Bill of Rights or even the simple enactment of the European Convention on Human Rights, on the grounds that the courts have shown themselves on the basis of recent past performance to be the uncertain protectors of individual civil liberties.

If the Labour party continues to mistrust the judges, the attitude is not entirely misplaced. On a general level the courts have not displayed any enthusiasm for taking on the kind of role which constitutional courts in the US and Western European countries traditionally exercise. A few senior judges – like Lord Scarman both when he was a Law Lord and in his retirement – have been loud proponents of at least the incorporation into English law of the European Convention. Other judges have shown much less enthusiasm for interpreting and applying the lofty principles that characterise such documents.

They much prefer the task of construing the precise wording of specific pieces of legislation and, if necessary, to deduce from parliamentary language any fundamental principles – and then only to do so in their statutory context. Just before the Christmas break the Court of Appeal was even more dismissive than usual about the guaranteed freedoms to be found in the European Convention. Even though it is recognised that the Commission and Court at Strasbourg may ultimately hold the United Kingdom in violation of one or another provision of the Convention, English judges nevertheless seem content to go their own isolationist way and leave any European reversals to be remedied by the executive or legislature at Whitehall and Westminster, as and when required to comply with Strasbourg rulings. If the courts in England are to retain their traditional role of protecting the citizen against government the judges will need more decisively to declare their desire to assist parliamentary control over the executive.

The failure of the courts in recent years to persuade politicians of the left that civil liberties are safe in the judges' hands is enhanced by specific examples of judicial insensitivity to individual claims for recognition of their rights. Too often judges listen more to what the law suggests are proper citizens' claims than to what the individual citizen seeks from the law.

The public furore over the immediate imprisonment of a young woman first offender for inciting shoplifters to steal from her employer's premises is an example. Judge Pickles is undoubtedly a maverick among Circuit Court judges; his occasional eccentricities are not, however, entirely to be deplored. His judicial errors are subject to appellate correction. Judge Pickles appeared acutely aware that his decision to send a woman with a 10 weeks old baby to prison would arouse a public protest but was susceptible to appeal.

Indeed the woman's solicitor obtained within a matter of a few days permission from a High Court judge for an early hearing of his client's appeal against her sentence. The likelihood of the appeal being successful was obvious. Even if a prison sentence was an appropriate penal sanction for a serious breach of trust by an employee, on the basis that even a non-violent property offender may deserve such condign punishment, the Appeal Court judges are almost bound at least to suspend the sentence. They might even alter it to a probation order, or to an order of community service.

Given such a possible, even likely outcome to the appeal, the young woman nevertheless will spend some little time actually in custody. Mr Justice Judge, in granting her leave to appeal, refused however to grant her bail pending the hearing of the appeal. She thus languishes in jail despite the fact that the Court of Appeal is likely to say retrospectively that Judge Pickles should never have sent her to prison in the first place.

The principle upon which the courts proceed is that once an offender is convicted and sentenced to imprisonment he or she must serve the sentence unless and until it is declared to be wrong. The courts generally refuse bail pending appeal on the grounds that it would be harsh upon an individual to let him or her be immediately released upon the instant imposition of imprisonment if ultimately the appeal was to be unsuccessful, and the offender had to return and serve part or the whole of the prison sentence. The courts do not like appearing to engage in a cat-and-mouse activity.

To adopt such a stance, however, is to allow the courts to impose their view of what is best for the individual. But if the individual understands the possible consequence of release from prison pending appeal, is it for the courts to second guess the offender's wishes? He or she may calculate that the sentence will not be upheld, and may thus avoid the distasteful experience of a first time inside. Or, even if the sentence will be upheld, the offender may wish to have time to make arrangements for ordering domestic affairs while undergoing imprisonment.

The suspicion is that judges, while nevertheless expecting that the Appeal Court will interfere and reverse a prison sentence, think that a taste of prison may not altogether be a bad thing as a general deterrent. Even if that is not the judicial motive, there seems at least to be a failure by the courts to be more sensitive to the individual's needs – and less sensitive about the public's desire for the administration of justice.

Editorial Comment, Page 12

SECTION III

FINANCIAL TIMES SURVEY

A more co-ordinated economic policy, deregulated financial markets, the growth in world trade and cross-border company alliances — all these are helping to shape the global economy of the 1990s. Charles Leadbeater, Industrial Editor, assesses the prospects

A corporate global trend

PICTURE THE chief executive of a leading industrial company sitting behind an expansive desk, in a large sunlit office, pondering a strategic move. One word will almost certainly spring to his mind to justify it — "globalisation."

Scarcely a day goes by without this magic word peppering corporate announcements to justify acquisitions, joint ventures, investment or marketing agreements.

It is impossible to determine the prospects for industry as it enters the 1990s without gauging the strength of the trend towards internationalisation. The question is not merely what is the outlook for industry within increasingly internationalised markets, but what is this "global economy"?

It is being created at several interconnected levels. Their interaction will determine the context for business.

● **Economic policy.** The 1987 Louvre Accord on exchange rate stability has evolved flexibly. But leading industrial powers seem likely to maintain their commitment to the sort of policy co-ordination which helped the recovery from the stock market crash of 1987.

The strength of that commitment may be tested by slower growth. After 4.1 per cent growth in industrialised countries in 1988, growth in the OECD slowed to 3½ per cent last year. Both the International Monetary Fund and the OECD expect a further slowing this year to 2¾-3 per cent.

● **Financial markets.** Economic policy has become intwined with the internationalisation of more deregulated financial markets. The questions economic policy makers grapple with — from the volatility of equity markets, exchange rates and interest rates to the Third World debt crisis — are often transmitted from financial markets swimming across national borders.

● **Trade.** In the last few years world trade has grown more strongly than industrial output, this being a return to the dominant postwar pattern.

In 1989 world trade in goods increased by about 7 per cent, more than double the rise in production. Its continuation may hinge on whether the Uruguay Round of Gatt, due to be completed at the end of the year, prevents a slide into bilateralism and protectionism.

● **Industrial restructuring.** The economic growth of the last few years has stimulated an widespread business investment boom, which should maintain productivity growth in the next couple of years.

Since 1986 international direct investment has grown 2½-3 times as fast as trade in industrial goods within the OECD, reflecting far-reaching changes in the international pattern of production.

A diverse set of pressures, from the costs of research and development in the car and pharmaceuticals industries to the deregulation of European air travel, has led companies into international alliances to secure the critical size to compete in wider markets.

International direct investment has risen markedly over the 1980s. Outward investment from the top five OECD economies has risen from $244.6bn in the 1970s to $419.3bn between 1981 and 1988. Their inward investment has increased from $79.9bn to $107.5bn.

But direct investment in greenfield sites and acquisitions is only one aspect of internationalisation. Nowadays, leading companies such as General Electric of the US and Thomson CSF of France are at the centre of a dense web of less tangible international links — joint ventures, international consortia, marketing and licensing agreements. The car industry is becoming criss-crossed with such agreements. Boeing said recently that three Japanese heavy engineering companies would partner it in the development of its 777 airliner.

Increasingly, these inter-related issues of economic and trade policy, financial market regulation and industrial restructuring will throw in doubt the efficacy of strategies based on a single nation state.

The EC's 1992 programme is only the most ambitious attempt to create a regional grouping within the international economy. North America has equipped itself with the United States Omnibus Trade and Competitiveness Act of 1988, coupled with the United States-Canada Free Trade Agreement. Japan, the disruptive innovatory force in the international industrial economy of the 1980s, is emerging as leader of an informal group of dynamic Asian economies.

Japan's competitive challenge shows no sign of abating. Its heavy industries such as steel have recovered from a slump three years ago, its car companies remain at the leading edge of the worldwide industry and it plans to move into new areas such as aerospace.

The regrouping of national economies is presented in a spirit of internationalism. But it could become a cloak for born-again protectionism with the formation of trade blocs that might leave debt-burdened Latin America and sub-Saharan Africa out in the cold.

It remains to be seen whether consolidation will bring a fundamental improvement in industrial performance in more competitive markets or create European oligopolies to replace national champions.

It is one thing to acquire a company abroad, sign a joint venture with a foreign collaborator or build a new plant overseas. It is another to manage a company as an integrally international organisation.

The global corporation has to be large. But it must also be lean. Its management tendons and sinews must be strong enough to co-ordinate its international division of labour.

Evidence of how mobile these giants will be may come from recent cross-border mergers, such as SmithKline Beckman of the US and Beecham in the UK in pharmaceuticals, the joint venture between GEC of the UK and Siemens of West Germany to take over Plessey in defence electronics and Sony's purchase of Columbia and CBS, to span the hardware and software of consumer electronics in the 1990s.

The pace of industrial internationalisation may slow with lower economic growth, a prospect confirmed by the outlook for several industrial sectors.

The US car industry is on the verge of a sharp downturn, compounding worries of declining North American competitiveness. Steel consumption is expected to decline marginally. Several years of sustained expansion in the chemicals, pulp and paper industries seem set to come to an end.

In many industries the terms of competition are changing. In the 1980s many Western companies responded to Japan's competitive challenge by investing in new technology and minimising waste through just-in-time production.

In the 1990s the emphasis will shift away from how products are produced to what sort of products are made. Mass markets are becoming more segmented. Consumers are demanding more sophisticated, stylish products.

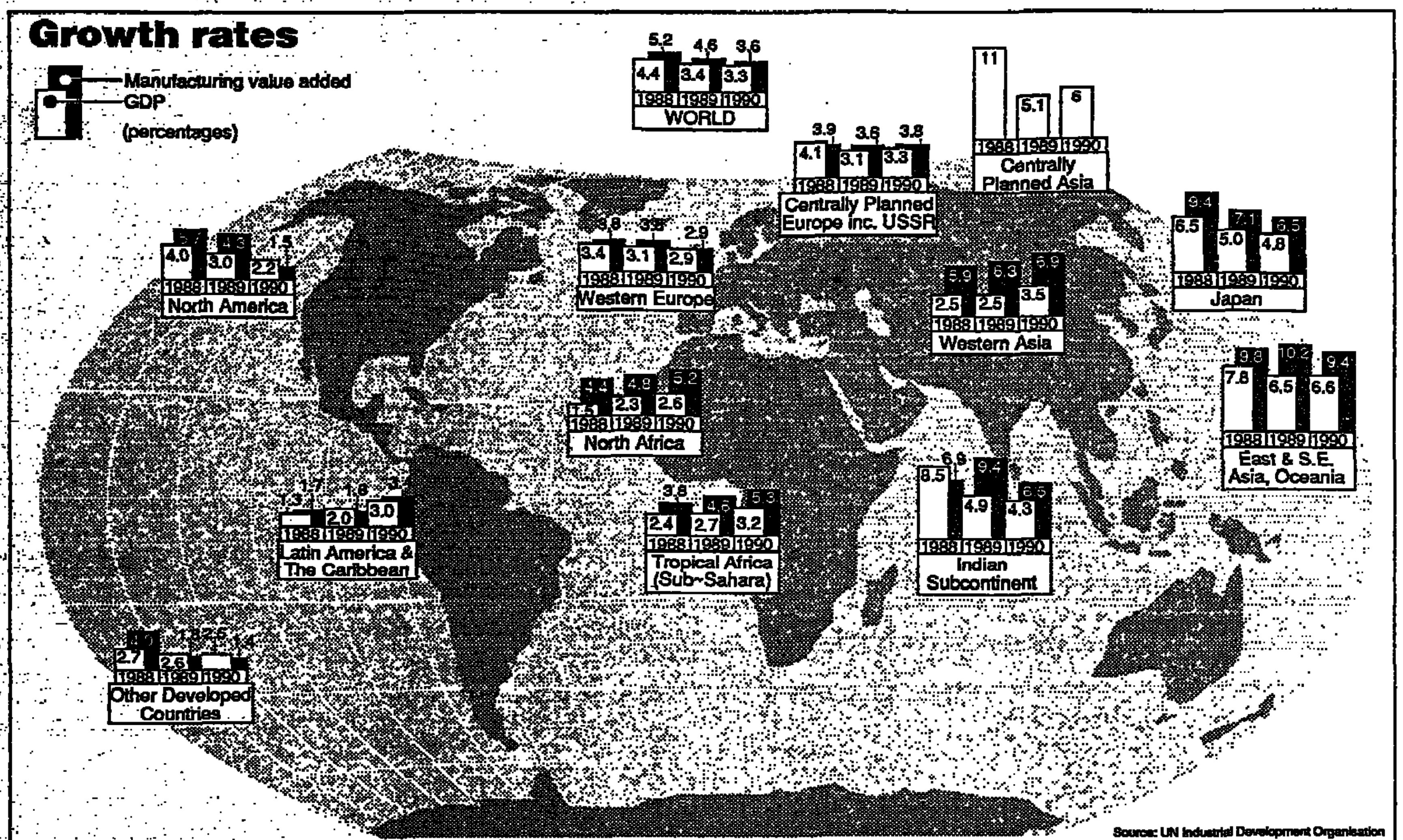
Research and development is becoming more important to create higher value-added products, imbued with more "knowledge content." Companies must sell into a larger market to finance this growing expenditure. Alliances with other companies reduce the risks.

How companies use time and space is of growing significance. From just-in-time production systems to the drive to cut product development cycles, companies are under pressure to compress the time between designing, making and selling a product. They must also compress the distance between national economies, integrating disparate plants with sophisticated communications systems.

Products are also becoming more complex, incorporating a wider range of technologies. The average washing machine in the 1990s will probably use both new composite materials and microprocessors to control them. It will be impossible for a single company to be expert in all aspects of the technology involved in its products. So manufacturers will increasingly become specialist designers and assemblers of components made by subcontractors. They will operate within a network of suppliers, often in far-flung parts of the world.

Finally, business will perhaps more than ever be about politics as well as cost, price and quality. Most manufacturing industries will feel the force of growing concern about the environmental impact of industrialisation. Political reforms in Eastern Europe may open up investment opportunities. But they could also force structural adjustments in defence-related industries, crucial to both electronics and aerospace. The importance of knowledge-based competition means businesses will have to be more closely involved with education and training policy.

International companies are probably the most internationalist of all institutions. Perhaps the most important question they face in the 1990s will be whether political systems, based on the economies of nation states, will evolve into an orderly international system of political regulation to match the internationalisation of the economy.



Source: UN Industrial Development Organisation

World Industrial Review

CONTENTS

Editorial production
Gabriel Bowman

Martin Wolf on prospects for the 1990s

Globe can struggle through

FOR INDUSTRIALISTS in the developed countries the 1980s began with agony and ended with euphoria. In this way, the decade has turned out to be a mirror image of the 1970s, which began with the synchronised world boom that peaked in 1973 and ended with the second oil shock.

Why were the 1980s so good, at least for the developed countries and a few export-oriented developing countries? The actions of policy makers in the developed countries are only a part of the explanation, though their willingness to accept previously unthinkable levels of unemployment to sustain low inflation has been important, as has been the shift towards economic liberalisation. But the success of the developed countries is a mirror image of the plight of commodity-exporting developing countries.

Although economic life does not fall naturally into decades, the years between 1979 and 1982 were a watershed. 1973 to 1979 were the years of the two oil "shocks", of negative real rates of interest and of commercial bank "recycling" of oil revenues to developing countries. In those same years the developing countries hailed the arrival of "commodity power" and clamoured for global negotiations to establish a "new international economic order." The 1980s saw the collapse not only of commodity prices, but of the demands for global economic reconstruction, along with the economies of most of those making them.

Between 1979 and 1982 commodity prices fell in real terms by 19 per cent; by 1987 they were 34 per cent below the 1979 level. *By 1986 the real price of* oil had fallen by 70 per cent from its 1980 peak. It is not surprising, therefore, that the Volcker shock of 1979-82 was durably successful in curbing inflation and that the renewed economic growth of the 1980s saw declining inflation and a recovery of profits in virtually all the industrial countries. It *is equally unsurprising that so* many commodity exporting developing countries, including those dependent on oil, should have been mired in debt and achieved little growth throughout the decade.

So what comes now? Forecasts for the industrial countries from the OECD and the *International Monetary Fund* are for a fairly smooth deceleration in economic growth, after the global surge that peaked in 1988. In its December Economic Outlook, the OECD forecasts growth of the OECD countries in 1989 at 3.6 per cent, down from 4.4 per cent in 1988, and then a further decline, to 2.9 per cent, in 1990 and 1991. The *slowest growth is expected in* the US, while Japan's growth is to remain at above 4 per cent throughout and OECD Europe is to fall in between the two.

This comforting scenario represents no more than a pause for breath after the seven fat years between 1982 and 1989. Will there then be seven more good years or are *the industrial countries due for* some lean ones once more?

The fundamentals are a cause for optimism. Technological progress continues unabated. Economic reform in Eastern Europe – along with completion of the Community's internal market – must offer opportunities for sustained *growth in Western Europe.* Equally important is the increasing integration, around a more balanced Japanese economy, of the world's most dynamic region, East Asia. Meanwhile, economic reform in Latin America, already quite far advanced in Mexico, should provide renewed opportunities for growth there in the course *of the 1990s – and so for North* America as well. Finally, successful trade liberalisation in the Uruguay Round, to be completed next year, would add the boost of growing inter-continental trade to these important regional developments.

The promise is balanced against the risks. One risk is of renewed inflation. The OECD *forecasts that inflation in the* OECD countries will remain above 4 per cent in 1990 and 1991. This suggests that the next upswing will start from an uncomfortably high rate of underlying inflation. Inflation entrenched at above 4 per cent is a worrying portent, especially since there are growing murmurs about oil shortages again in the 1990s. Any sharp deterioration in the terms of trade, which tends to bear most heavily on profits, would put growth in the industrial countries in danger.

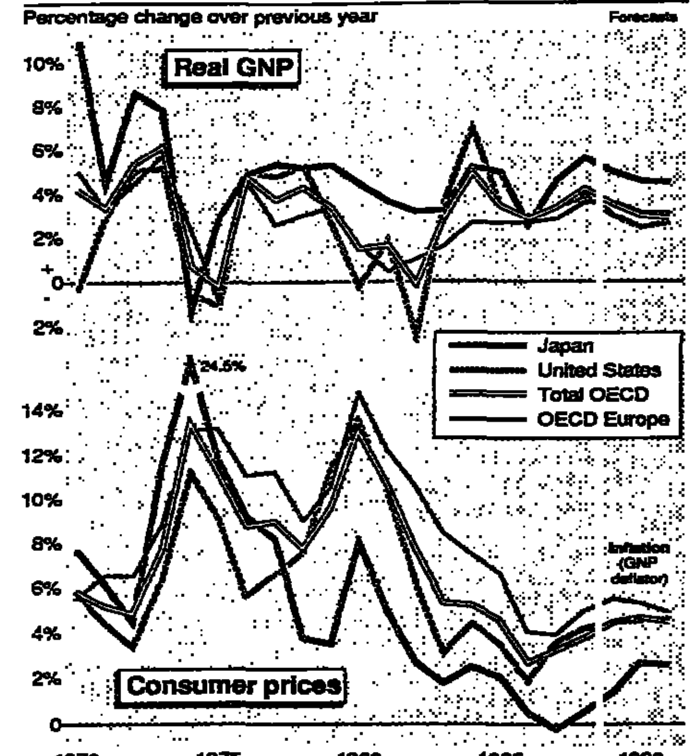
There are also the global imbalances. The US current account deficit is projected by the OECD to stay at around $120bn, though this would at least represent a declining share of gross national product. More interestingly, the Japanese current account surplus is expected to fall below that of Germany next year. Since the German surplus is expected to be almost entirely offset by deficits elsewhere in Europe, this will leave the world very short of lenders and the position of highly geared borrowers vulnerable.

Consequently, in the early 1990s further defaults, both by developing countries and by highly leveraged borrowers in developed countries – notably the US – are probable. *Clearance of the financial wreckage* of the 1970s and 1980s is desirable, but the consequences could be devastating if the liquidation of bankrupt institutions is not handled properly.

Nor is a persistent US external deficit on the current account particularly desirable. A complete dollar collapse can *perhaps be discounted, but a* serious bout of US protectionism is all too likely. If the Uruguay Round ends as a flop, trade policy – already the main exception to the liberalising trend of the 1980s – could go seriously wrong. The early 1990s would then have seen the triumphant success of the integrated world market economy *over communist autarky* – and its subsequent demise.

If all this were not enough to fret about, there is also the biblical warning of flood and famine from the environmentalists. None the less, the globe should be able to struggle through the 1990s at least, with a political reversal in the Soviet Union offering a more *immediate threat of Armageddon.* On balance, the industrial countries should be helped along by the steadying influence of those supreme pragmatists, the Japanese. The bigger question is how much of what were the Second and Third Worlds will manage to join them on their journey.

The return of economic stability



The West's moving target

Guy de Jonquières on capitalism in an age of upheaval

IT IS ironic that just as much of Eastern Europe is consigning Communist economic doctrine unlamented to the dustbin of history, Western capitalist economies should be in the throes of their most turbulent upheavals for half a century.

One after another, comfortable assumptions about economic and business life which evolved in the industrialised West after the Second World War have been exploded or discarded during the 1980s.

In their place has emerged a much more fluid and unpredictable international business climate, in which the prospect of further rapid change increasingly appears to be one of the few constants.

As a result, the practice of Western capitalism does not offer a stable model, with clearly agreed rules. Rather, it is a moving target, caught between the pull of complex and often opposing forces, whose longer-term direction is difficult to define.

Four principal elements have in the past decade helped to produce these upheavals:

1. Acceptance by almost every Western country of a more active role for the market in allocating resources. This has been coupled with an acknowledgement by governments that they possess neither a monopoly of wisdom about the ordering of industrial affairs nor, any longer, the power to enforce it efficaciously.

2. A break with post-war "reconstruction" policies and Fordist mass-production methods which sought to maximise volume output of long runs of identical products for clearly defined markets.

The focus of competition, above all in consumer goods, has shifted to the search for higher value-added through product differentiation, flexible organisation and more speedy product development.

3. Accelerating technological innovation, particularly in the all-pervasive field of microelectronics. The revolution in tech*niques for processing and communicating* information has eroded national frontiers, tightened the inter-connections between world economies and stimulated the international mobility of capital.

At the same time, the enhanced strategic importance of the new technologies has intensified rivalry between countries and regions intent on safeguarding their control over them. This has led to pressures for neo-mercantilist policies and *greater involvement by governments in* support of their producer industries.

4. The emergence of new competitor countries, led by Japan and including several south-east Asian states, whose industries have fiercely contested the established market positions of producers in the longer-established industrialised countries.

Among the positive consequences of these developments has been a far-reaching shake-up in the world industrial order. *Entire sectors have been restructured,* within countries and across borders. Management methods have been overhauled.

Yet, as Western industry enters the 1990s, it confronts a paradox. Many long-standing barriers around national economies are being challenged by fiercer international competition, more efficient communications and the pressure on industries – particularly technology-intensive ones – to seek growth beyond the *restricting confines of their home markets.*

However, national and regional economic rivalry and the desire to defend special interests remain close to the surface – and may even be increasing. The 1980s have seen a growth of protectionist measures such as the quantitative import restraints and the proliferation of anti-dumping actions instituted by the US and the European Community.

These conflicting trends have been accompanied by the emergence of regional economic and trade blocs, exemplified by the free trade agreement between the US and Canada and, on a much more ambitious scale, by the Community's plans to create a single market – and ultimately an economic and monetary union.

The 1992 programme was inspired by the realisation that the sheer pressure of international competition and shifting industrial economies of scale were rendering *untenable the EC's internal trade barriers* and severely handicapping its producers. In that sense, 1992 has been as much a reaction to, as an initiator of, change.

But it is less clear that internal liberalisation will be matched by a corresponding openness to the outside world. While anxieties that the Community was intent on erecting a "Fortress Europe" were overdone, wide differences remain between its members over what stance it should adopt towards the rest of the world and, in particular, towards Japan.

In attempting to formulate policies for leading industrial sectors such as cars and electronics, EC governments and the European Commission have found it difficult to decide whether to shelter them with trade protection and subsidies or, on the contrary, to expose them more directly to the stimulus of competition from producers outside the Community.

Hence, while national markets are being consolidated into larger units, offering producers a wider range of outlet opportunities to achieve superior economies of scale, the industrialised world is still a long way from achieving the seamless international economic integration required to create a truly "global" market.

It is equally debatable whether global integration has been promoted or handicapped by financial deregulation, the phasing out of exchange controls in many countries and closer links between the world's major financial centres.

The greater international capital mobility which has resulted has, in theory at least, enabled money to be channelled more efficiently into those investments offering the highest returns. But it has also led to instability, exemplified by the steep falls of stock markets worldwide in October 1987 and the less dramatic repeat performance two years later.

In the US and Britain, in particular, the free-wheeling and increasingly intrusive *role of liberalised financial markets has* prompted an anxious debate about their impact on economic and industrial growth. As hostile takeovers and leveraged buy-outs have grown during the 1980s, arguments have raged about the wisdom of entrusting so much control over wealth creation to financial systems apparently dominated by the desire to maximise short-term pecuniary gains.

Industry responses to these challenges *and opportunities have been marked,* above all during the late 1980s, by one theme: accelerated internationalisation and geographic diversification.

This has been achieved by two principal routes. The first has been direct investment abroad, either by acquisitions and mergers or by establishing greenfield facilities. The second has been through corporate alliances and joint ventures. These have been driven by the desire to spread *costs, to obtain proprietary technology and to gain* access to specific market sectors.

What all these co-operative arrangements have in common, however, is a wish to contain risk. When the business outlook is subject to sudden change and many industries face intense competitive pressure to innovate faster, collaboration offers companies a way to participate in a variety of market sectors while limiting their individual commitment of resources.

Hence, some of these link-ups may prove temporary and may be dissolved once they have fulfilled their immediate purpose or lead to one partner acquiring full control over the other or over the joint project.

In one sense, the growth of foreign direct investment and industrial collaboration contributes to international economic integration. That has certainly been the case in the past few years in the European Community, where the new-found willing*ness of companies to venture beyond their* national frontiers has added to pressures for the removal of internal trade barriers.

However, these developments also generate policy dilemmas, which threaten to aggravate strains between the industrialised countries and regions in the next few years. Increasingly, they point to a vacuum created by the failure to formulate internationally-agreed rules of conduct which take account of the changes in the structure of the world economy which have occurred in the 1980s.

The clearest symptom is the growth of efforts by both the US and the EC to exact from their trading partners bilateral "reciprocity" of market access. When such tactics have either been rejected or failed to deliver the expected results, they have led, notably in the US, to calls for "managed" trade, backed by thinly-veiled threats of protectionist retaliation.

Tensions are increasingly spreading to foreign direct investment, where two broad sets of issues are emerging. One concerns the inducements offered by host countries to attract inward investments, and the "performance requirements," such as local content rules, imposed on them.

Attempts are being made in the Gatt Uruguay Round to agree common rules to curb such practices which, if unchecked, would severely distort investment flows and could lead to beggar-thy-neighbour rivalry between host countries.

The second issue is the openness of economies to foreign investment or acquisitions. In the US, concern about the growth of foreign ownership, particularly from Japan, led Congress last year to pass the Exon-Florio Amendment, which entitles the President to block foreign takeovers on national security grounds.

A related controversy concerns takeover reciprocity. There have been complaints in Britain and the US that while foreign companies are able to acquire freely on their territory, takeover defences deployed in many other Western countries frustrate unwelcome cross-frontier bids.

It is questionable, however, how far such asymmetry can be removed by common international rules. As a recent EC-wide study demonstrated, many of the barriers to takeovers do not stem from specific legislation or regulation, but from ownership structures, culture and varying concepts of the economic role of the firm.

Another area likely to give rise to increased international debate is competition policies, particularly towards mergers and acquisitions. Here, there is almost no consistency among Western countries.

The US, West Germany and Britain have well-developed policies. But some, such as Italy, have none, while in France, national rules have been applied in a lax or haphazard fashion. There have also been suggestions that some countries have used merger policy to frustrate unwelcome takeovers by foreign bidders.

If the European Commission wins the authority it is seeking to vet large mergers, it should be in a position to impose a more coherent policy within the Community. However, the Commission's jurisdiction – and its definition of the "relevant market" on which it bases its judgements – will still stop at EC frontiers.

Yet the impact of large mergers and acquisitions may extend beyond one region or country. Some commentators have warned that the 1990s may see the emergence of "global oligopolies" in certain industries, operating beyond the effective control of any official regulator.

It will be many years, if ever, before the world is ready for the idea of a single competition watchdog. But the increasingly complex international structure of business may well create pressure for closer international co-ordination and agreement on some common rules, at least between authorities in the EC and the US.

Whether such pressures will be heeded, in competition law or other areas where international policy differences threaten to create tensions, is another matter. The 1980s were a decade in which the old industrial and economic mould was well and truly broken. In the 1990s, we may see if it can be reassembled in another form.

Peter Montagnon on the outlook for trade

Gatt talks seen as pivotal

A *SNAPSHOT* of the international trading system as it enters the 1990s presents a curious paradox. Though beset by rampant and increasing protectionism, the world economy is still managing to generate a record flow of trade.

According to the General Agreement on Tariffs and Trade, the volume of world trade in goods increased by 7 per cent last year. This was the third best performance in the decade and more than double the rise in world production.

Though the rate of growth is expected to moderate in 1990, trade is thus expanding faster than economic output as a whole. Indeed, it appears to have become a locomotive of growth in its own right. The crucial question is whether this can continue in the medium term.

Part of the answer still eludes economists who are uncertain why trade has taken off in the way that it has, though Gatt officials have pointed to the rapid growth of trade in capital goods as investment has expanded and the higher value of agricultural exports resulting from the US drought of 1987. Another part will become clearer at the end of this year when Gatt completes its Uruguay Round of multilateral trade negotiations.

By common consent, these talks are pivotal to the future of the trading system.

Not only are they designed to wean the main trading powers away from protectionist excess by strengthening Gatt as an institution and thus the multilateral system. They are also intended to write rules for the newer forms of trade, covering such areas as services, investment and intellectual property. The aim is to incorporate into Gatt areas which *were traditionally excluded,* such as textiles and farming.

Given substantive agreement on all these points, the world could be set fair on a course of continuing trade growth. A vague agreement which fudged the real issues could open the door to more protectionist pressure and regionalism in trade policy which could cause the system to fragment, impeding global economic growth.

Although the Uruguay Round has been under way for over three years, no one yet knows for sure how it will turn out in the end. The world's trading nations have yet to test their political will in hard negotiation, a process which is only now about to get under way in earnest.

What is wanted if the system is to flourish is an agreement that:

- will curb unilateral trade actions by the US under Section 301 of its Trade Act and selective anti-dumping action by the European Community against successful exporters, above all in south-east Asia.
- will imbue Gatt with new authority by strengthening its dispute settlement procedures and tightening its rules that determine how nations should conduct their trade.
- will at least start unwinding farm subsidies which the US estimates cost the world's taxpayers and consumers $275bn a year, will open the door to integrating trade in textiles into Gatt and, by writing rules for new areas, will allow Gatt to adapt to the realities of modern commercial activity.

The new year is due to mark a shift in gear in the negotiations which have so far involved broad conceptual discussion in which members have set out their basic negotiating positions. Now they are *due to begin the hard bargain*ing on specifics in a process that is scheduled to last till mid-year when draft agree*ments* should start to emerge in each of the 15 separate agenda items.

These will then be refined to the point where they should – theoretically – be ready for endorsement by a ministerial meeting of Gatt in Brussels in early December. However, the chances of negotiators keeping neatly to this schedule are small, since in a number of particularly sensitive areas such as reform of world farm trade and textiles, they will want to hold up any concessions till the last minute.

Because the agenda is criss-crossed with interlinkages – for example, textile reform is linked to the negotiations on both dumping and safeguard measures which Gatt members are allowed to take to protect their industries against unexpected surges of imports – it seems probable that ministers will indeed have to do much of the final work in Brussels.

Given the timing of the meeting immediately ahead of the West German general elections, the risk is that the European Community may even at that point be unable to commit itself to an agreement on farm reform and the whole process would then be delayed. Consensus agreement on *all* parts of the package is needed for agreement on any single part to become operative.

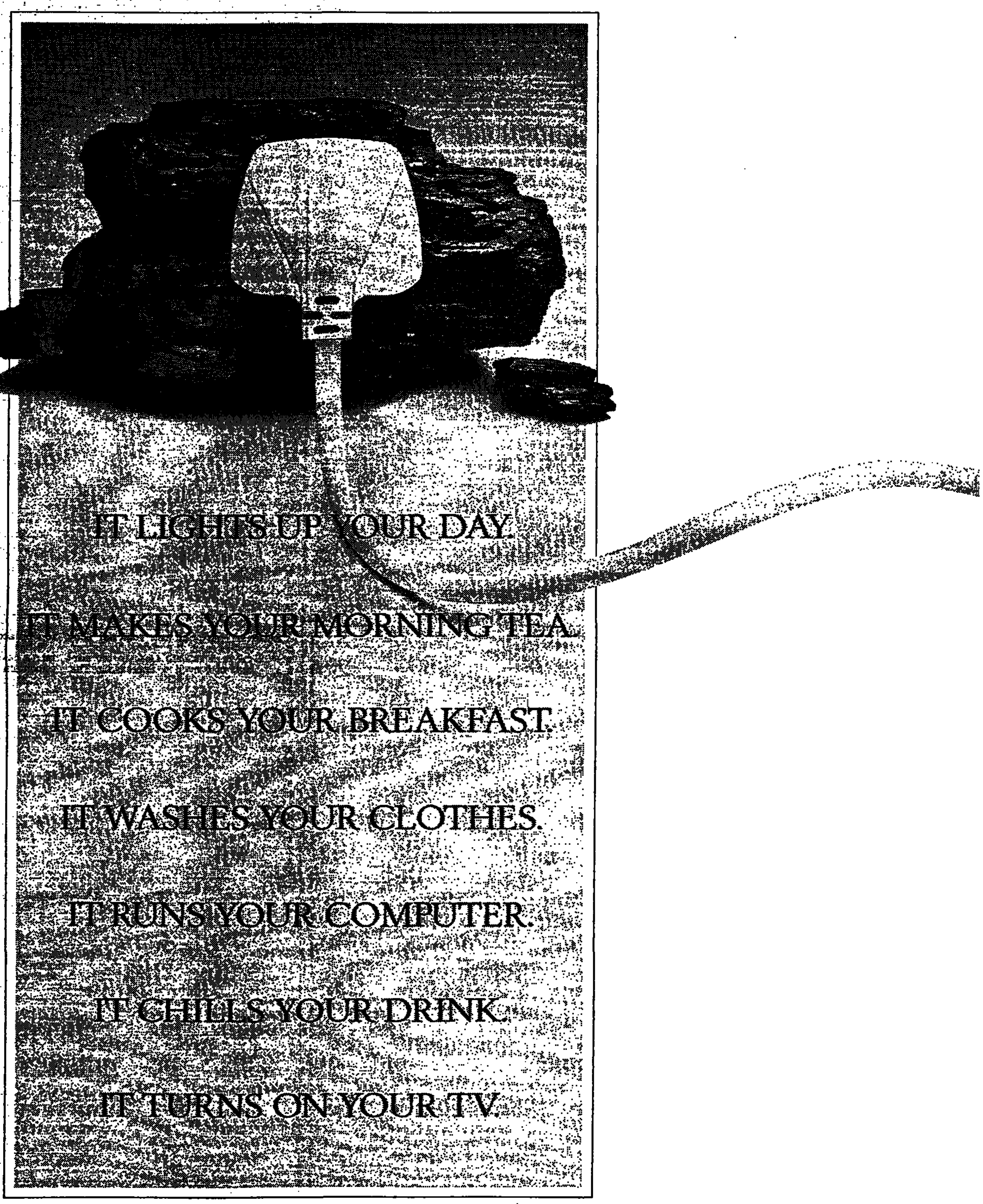
A positive point which has emerged in recent months is the clear determination of the US to achieve a Uruguay Round result which will strengthen Gatt and thus the international trading system. Mrs Carla Hills, US Trade Representative, made it clear to her fellow trade ministers at *an informal meeting* in Tokyo in November that the US was prepared to negotiate in good faith. The US has since produced a position paper on reform of trade in textiles which contained little by way of substance but is at least a gesture of earnest intent given the political sensitivity of this subject in Washington.

Concern is growing, however, about the readiness of the EC to commit sufficient political energy to the negotiations. Not only has the EC always been on the defensive about farm reform, it has now also been distracted by the collapse of the Communist governments of Eastern Europe. Its agenda, which also comprises the 1992 single market programme, monetary and economic union and negotiating closer links with the European Free Trade Association, is very large. There is, quite simply, a threat of systemic overload.

Taken together with the continuing opposition of some leading developing countries to accept reform in new areas like protecting intellectual property, as well as Japan's reluctance to adopt economic structures that would increase its propensity to import, this points to a strong risk that the agreements which do emerge from the Uruguay Round at the end of the year will be compromise ones, lacking substance and bite.

In those circumstances Gatt would not be reinvigorated. It would be powerless to prevent further erosion of the multilateral trading system through a proliferation of unilateralism and regionalism in trade policy. Continuation of the dynamic push which trade has given to the world economy during the 1980s could then no longer be taken for granted.

CLEAN LIVING FROM COAL.



We turn on the lights. We make the toast, boil a kettle or watch TV. Each day and night we have instant, invisible power at our fingertips. We hardly think about it.

And if we take electricity for granted, do we ever think at all about the fuel that provides most of it?

Maybe we should.

You'd be surprised just how much cleaner coal burning is today.

The latest coal-fired power stations throughout the world aren't just more efficient, they can eliminate 90% of sulphur emissions. An extensive programme of installing this technology (called flue gas desulphurisation) in British power stations has now started.

World-wide, coal-fired power stations contribute only about 7% to greenhouse gases, while generating at least 40% of the world's electricity supply (both figures are from OECD statistics).

In Britain coal produces over three quarters of our electricity.

Advances in combustion technology are impressive, promising us 20% more electricity from the same amount of coal, reducing emissions still further.

All of which means that modern coal will be able to generate electricity safely, cheaply and more cleanly for years to come.

And contracts offered by British Coal guarantee long-term prices to the power stations.

Which is good to know. Because it means we can go on living happily with British Coal well into the future.

For more information write to British Coal Marketing Department, Hobart House, Grosvenor Place, London, SW1X 7AE, or ring 01-235 2020.

WAKE UP TO THE NEW AGE OF British COAL

CARS

A new wave of 'transplants'

DURING THE 1980s Japanese car makers have been assiduously laying the foundations for their global challenge to the traditional North American and European leaders of the world auto industry. In the *1990s the next phase of the war* will be fought. The portents are not particularly promising for the old guard.

Despite all the efforts of the past decade and massive investments in particular by General Motors, the world's biggest vehicle producer, the big three US car makers ended 1989 with quarterly losses in their core North American automotive businesses and their share of the US market under threat as never before.

By contrast, in Europe record profits marked the end of the decade for the volume car makers – the European operations of GM and Ford are a crucial prop to maintain respectable profits for the US parent companies – but the industry is convinced this is only the calm before the storm.

In the face of rapidly growing Japanese investment in European production capacity, and confronted by the challenge of the single European market in the 1990s and the threat of the removal of restrictions on Japanese car imports, the European industry is seeking refuge behind calls for continued protectionism.

Five EC markets – Italy, France, Spain, Portugal and the UK – are currently subject to curbs on imports of Japanese cars. These national restrictions will have to disappear if there is to be a single European market for cars after 1992. The European Commission has said this is its aim, but the opposition is growing more formidable and the outcome is still far from clear.

Whatever the challenges of the single market for European car makers, the world automotive industry now faces a period of unprecedented competition. Most of the pressures are shared around the globe.

The screw is being turned tighter on all the world's car makers as environmental pressures grow for cleaner, more economical cars, and the world's major cities seek radical ways of easing roads clogged by the mounting flood of new vehicles.

The industry also faces a dire threat of overcapacity. "By the early 1990s we expect excess automotive capacity to reach 8.4m units worldwide," Mr Donald Petersen and Mr Harold Poling, chairman and chairman-designate of Ford, warned last month.

In 1989 cars have started to roll in increasing numbers off the lines of the Japanese assembly plants developed in North America during the second half of the 1980s. Demand in the US market has been falling in spite of US car makers' incentive and discount campaigns to bolster sales. In a falling market the share taken by Japan has been growing.

The focus of the Japanese effort to build a global car production base has already turned towards West Europe. At the same time, the country's two leading producers, Toyota and Nissan, have started an assault on the world luxury car market, challenging the last exclusive preserve of the European industry.

Significantly, Japan's car makers are also starting to establish vehicle design and development operations outside Japan, moving on from the earlier stages of setting up firstly a worldwide sales network for Japanese-built cars, and secondly local production facilities overseas.

Nissan Motor has recently announced, for example, that it is to set up a fully-fledged vehicle design and development operation in the UK, the first move by a Japanese car maker to engineer cars and commercial vehicles from scratch in Europe.

Nissan aims to create an operation in Europe which, within five years, should be able independently to develop new model ranges distinct from those originating in Japan or in the US.

For the moment, however, it is the rapid build-up of Japanese production overseas, most importantly in the US, that dominates the development of the world auto industry.

The start-up of the second wave of so-called Japanese "transplants" (local production overseas) comes in addition to the plants already brought into production in the 1980s in the US. This first generation of plants is already being expanded. Total production capacity of the Japanese transplants in North America could exceed 2.5m vehicles a year by 1992.

As the Japanese construction phase nears its end and the transplants begin production in the US, the focus of the challenge is shifting rapidly towards West Europe.

Nissan began small-scale car assembly in north-east England in 1986. Toyota, Japan's leading car maker, last year announced plans to build both car and engine plants in the UK. Honda, Japan's third largest car maker, but top producer in the US, rapidly followed the Toyota lead with its plan for an assembly plant in southern England, to join an engine plant which began full-scale production last autumn.

Honda is also taking a 20 per cent equity stake in the vehicle operations of Rover Group, the leading UK car maker, which already produces cars for Honda at its main Birmingham assembly plant.

Mazda is studying its first entry into European production through a joint venture with Ford, which holds 25 per cent of the Mazda equity, and Mitsubishi Motor has said it is conducting a feasibility study on European assembly.

By 1995 Japanese cars are expected to have captured around 18 per cent of the West European new car market compared with 11.3 per cent last year.

While the US industry appears to have borne the brunt of the Japanese assault so far, the actual pattern emerging from the globalisation of the auto industry is far more complex, as a growing web of international alliances, joint ventures and collaborations emerges.

It is the European car makers that look most exposed, with comparatively little presence – except through direct exports – in either south-east Asia or in North America.

Kevin Done
Motor Industry Correspondent

WORLD CAR PRODUCTION (thousand units)†

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
W Germany	4,167	4,311	4,374	4,346	4,500	4,355	4,332	4,414	4,466	4,548
France	2,632	2,773	3,052	3,224	3,338	3,358	3,275	3,364	3,412	3,501
UK	1,048	1,019	1,143	1,227	1,286	1,291	1,342	1,379	1,509	1,587
Italy	1,389	1,652	1,713	1,884	2,003	1,956	1,871	1,873	1,922	1,961
Spain	1,230	1,282	1,403	1,498	1,553	1,450	1,432	1,440	1,512	1,611
EC total	10,803	11,397	12,087	12,625	13,147	12,892	12,719	12,981	13,354	13,742
% change	*4.4*	*5.5*	*6.1*	*4.5*	*4.1*	*-1.9*	*-1.3*	*2.1*	*2.9*	*2.9*
Sweden	401	421	432	407	387	404	406	433	444	452
W Europe total	11,204	11,818	12,518	13,032	13,535	13,296	13,124	13,414	13,798	14,194
% change	*4.5*	*5.5*	*5.9*	*4.1*	*3.9*	*-1.8*	*-1.3*	*2.2*	*2.9*	*2.9*
US	8,186	7,730	7,146	7,118	6,959	6,807	7,066	7,046	7,120	7,322
Canada	1,091	1,062	811	1,028	915	1,040	1,076	1,131	1,175	1,199
N America total	9,277	8,792	7,957	8,145	7,875	7,846	8,142	8,177	8,295	8,521
% change	*4.9*	*-5.2*	*-9.5*	*2.4*	*-3.3*	*-0.4*	*3.8*	*0.4*	*1.4*	*2.7*
Japan	7,647	7,810	7,891	8,198	8,442	8,485	8,537	8,594	8,543	8,584
% change	*8.1*	*2.1*	*1.0*	*3.9*	*3.0*	*0.5*	*0.6*	*0.7*	*-0.6*	*0.5*
S Korea	264	457	790	866	941	1,117	1,339	1,530	1,746	1,932
Mexico	297	208	277	354	672	716	730	756	792	808
Brazil	759	815	683	782	746	763	828	882	942	961
Eastern Bloc	2,366	2,393	2,427	2,390	2,459	2,512	2,573	2,648	2,730	2,824
% change	*0.6*	*1.2*	*1.4*	*-1.5*	*2.9*	*2.2*	*2.4*	*2.9*	*3.1*	*3.4*
World total*	32,170	32,727	33,030	34,387	35,244	35,310	35,883	36,615	37,503	38,524
% change	*5.7*	*1.7*	*0.9*	*4.1*	*2.5*	*0.2*	*1.6*	*2.0*	*2.4*	*2.7*

*Excludes double counting †Smaller producers omitted

Source: DRI World Automotive Forecast Report

COMPONENTS

Focus on suppliers

THE AUTOMOTIVE components industry is still highly fragmented, particularly in West Europe. Yet it faces the considerable challenge of restructuring and rationalisation in the 1990s, because of the changing nature of the supplier relationship being demanded by car and commercial vehicle assemblers, writes **Kevin Done**.

Many small and medium-sized components makers operate only in national or regional markets, but these companies are now being confronted by competition on a global scale as the industry leaders internationalise their operations to follow in the footsteps of the vehicle assemblers.

Components suppliers in North America and West Europe also face a challenge from their Japanese rivals. These are using the expansion of Japan's car makers as a way of prising open European and US components markets.

It is estimated that Japanese components makers have already established more than 300 plants in North America, largely supplying "transplants" – the US-based Japanese car and truck assembly plants. While many of these plants still face an uphill battle to operate profitably, they have already succeeded in introducing new approaches to manufacturing, quality control and customer satisfaction.

Mr Gregory Macosko, a principal of the US-based Easton Consultants, says that the arrival of Japan's components makers in the US has "shaken the foundations of the domestic supplier community."

The most radical innovations introduced by the Japanese components suppliers into North America have been in manufacturing organisation, claims Easton. "Rather than cranking up as quickly as possible to projected volume, transplants take considerable time to reach full capacity so that first-time quality is high when maximum line speeds are achieved," says Mr Macosko. "Because capital equipment is of the latest design, such new competitors are often tough to beat on cost."

Throughout most of the 1980s between a quarter and half of the components transplant operations started in North America have been joint ventures, but Easton suggests that this share will fall in the coming decade. In some cases the Japanese components makers are already buying out their local partners. Easton calculates that there will be over 350 transplant components plants in America in the early 1990s.

It is still unclear to what extent the US experience in components will be repeated in West Europe. Japanese vehicle assemblers have claimed that they will seek first and foremost to use existing components makers in Europe to supply their local assembly plants, but some giants of the Japanese components industry are determined to follow the assemblers by breaking into the European market.

Significantly, most of the big Japanese components makers are tied closely to the vehicle makers through interlocking equity holdings. In recent months Nippondenso and Calsonic, which belong respectively to the Toyota and Nissan control spheres, have made forays into Europe.

Calsonic, a leading maker of automotive air-conditioning systems, bought Llanelli Radiators Holdings in the UK with the avowed intent of making the company "the foundation for its expansion in Europe". Nippondenso, Japan's biggest automotive components supplier, bought IMI Radiators, the UK's only large car and truck radiator manufacturer.

At the same time, the relationship between vehicle assemblers and their components makers has entered an era of profound change. Car and commercial vehicle makers are increasingly aware that the drive for improved quality and for greater efficiency and productivity within their own organisations depends crucially on the performance of their suppliers.

As the car makers concentrate more of their resources on the core activities of the design and development and assembly of new vehicles, they seek to place more of the burden of the design and development of components on the suppliers.

This process is placing much heavier demands on the research and development capability of the components makers, but at the same time it is drawing the two sides of the industry into a closer relationship and is forcing the vehicle assemblers to accept much longer-term contracts with their suppliers than has previously been the case in the auto industry.

The vehicle makers can no longer afford to play off one supplier against another in the search for the lowest price, when the performance of their component makers is crucial to their own ability to meet higher quality and productivity standards, to lower costs and to cut stock levels.

Front rank components suppliers are being forced to deliver not only individual components but complete systems and sub-systems for the car as the vehicle makers move towards modular assembly to improve the quality of their products.

The so-called first-tier suppliers are being brought into the vehicle design and development process at a much earlier stage. The prize is to win the pole position as the prime supplier of a particular component or system with the long-term contracts that flow from such status.

The price for the components supplier is that it must shoulder an increasing part of the development burden and accept an increasing intrusion by the vehicle assembler into the intimate running of its business as car makers seek to inspect and monitor at first hand the quality and performance of their suppliers.

At the same time, systems such as just-in-time delivery mean in practice that the vehicle assemblers transfer to the components industry a significant part of the costs of maintaining stock levels, which is forcing the components makers themselves to drive for greater efficiency by passing these costs down the supply chain.

The prize of pole position also means that the components supplier must be ready and able to follow the vehicle assemblers *around the world* as the globalisation of the motor industry intensifies.

Vehicle assemblers are also moving rapidly to reduce multiple sourcing of components in favour of choosing a smaller number of preferred first-tier suppliers and in some cases of single sourcing.

Entry into the electronics era poses large new challenges to the automotive components industry. The world market for automotive electronics is expected to more than double to around $35bn by the mid-1990s from around $15bn at present, according to General Motors of the US.

Electronics systems and their integration poses "the biggest challenge of all" to automotive companies, says Mr Robert Eaton, president of GM Europe. "There is not a single aspect of the vehicle that will not be affected by technological progress in computers and electronics."

TRUCKS

Feverish search for alliances

THE WORLD truck industry faces a testing period as it enters the 1990s, with demand falling sharply in North America and in some West European markets, writes **Kevin Done**.

US and European producers are braced for the growing challenge to their domestic markets that is expected from Japan in the next decade, while European truck makers *also confront the uncertain* impact of the deregulation of the Continent's road haulage industry and the creation of the single European market.

Two leading North American truck makers, Navistar and Mack, have already slumped into loss in the face of declining US sales. In Europe truck makers reached peak production and sales levels in 1989, but in recent months demand has begun to soften.

In the UK, the largest European truck market, most producers have been forced to reduce production and enter the 1990s on a four-day week so as to reduce stock levels and adjust output to lower demand.

Japan's domestic truck market, the world's second largest single heavy truck market with a volume last year of around 60,000 trucks, is still riding a 2½-year surge in demand derived mainly from vigorous Government investment in the public sector.

The European truck industry has embarked on a new wave of restructuring, a development long expected but which few had forecast before the downturn finally began to bite.

In 1950 there were 55 independent commercial vehicle makers in West Europe. By last year the number was down to 11, and the process of concentration is not finished yet.

The latest round has been dominated by MAN, the West German commercial vehicle maker, which has recently taken over the truck operations of Steyr-Daimler-Puch in Austria, and has emerged as the victor along with Daimler-Benz in the battle to take over Enasa, the Spanish state-owned truck maker.

The Steyr and Enasa deals represented the final obvious restructuring moves in the *European truck industry*. Alone, both producers had lacked the necessary critical volumes to survive and they had been among the industry's weakest financial performers.

Both attracted rival bidders despite poor recent track records, illustrating the eagerness of the bigger players in the industry to spread their service and distribution networks through Europe to acquire market share and to add ready-made capacity.

Under the Enasa deal MAN is taking a stake of 60 per cent and Daimler-Benz 20 per cent, while INI, the Spanish state holding company, will retain 20 per cent. MAN claims that the two takeover deals will move it from being a medium-sized player to one of the world's leading heavy truck makers with a share of more than 15 per cent of the European market. It still faces an enormous challenge to rationalise the newly-acquired operations in Austria, Spain and the UK.

The single market of the 1990s seems certain to prompt substantial changes in the truck makers' customer base. It has engendered an almost feverish atmosphere, with the stock response to rumoured talks being that "everyone is talking to everyone else."

Volvo of Sweden has been involved in discussions with Renault of France, although nothing substantial has emerged. Both companies have a presence not only in Europe, but also in North America, Renault through its associate Mack, and Volvo through its takeovers of the White Motor and General Motors heavy truck operations.

Mr Edzard Reuter, chief executive of Daimler-Benz, the world's biggest truck maker, says that the West German group is looking for potential co-operation deals with Fiat, not only in the aerospace sector, but also in commercial vehicles. Iveco, Fiat's truck subsidiary, has already broken new ground by joining forces with Nissan Diesel, one of the leading Japanese truck makers, to develop a new range of medium-sized diesel engines, the first important co-operation project between European and Japanese truck makers.

The continuing search for alliances is being driven by:

- ever-increasing product development costs
- growing environmental pressures and the imposition of tougher emissions controls
- the integration and liberalisation of the European road haulage industry with the emergence of a smaller number of big international players in the transport industry
- the threat of a future slowdown in the economy.

Mr Sten Langenius, president of Volvo Truck, warned recently that new levels of product development and investment were needed to meet the much tougher emission levels which could now be foreseen. *"The money involved* will be of such a magnitude that there will be a restructuring of the truck and truck component industry worldwide."

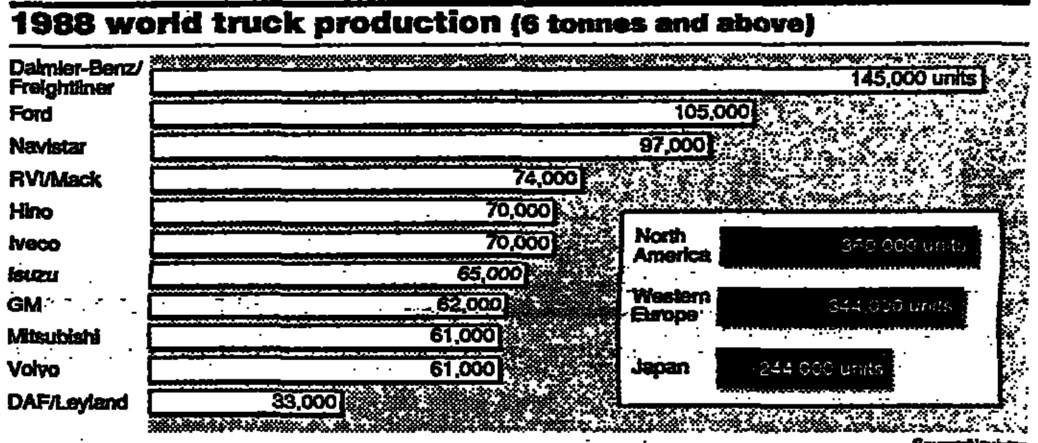
The harmonisation and deregulation of the transport sector resulting from the creation of the European Community's internal market is expected to lead to heavy pressure on the truck makers to reduce costs. US deregulation has led to much tougher competition in the home market.

As a smaller number of much larger, professional, international transport companies emerge, the truck industry will be more vulnerable to pressure for lower prices in return for large volumes, squeezing profit margins.

Increasing product development costs, arising from pressures for longer service life, greater vehicle productivity, improved safety and fuel economy, and action on emissions and noise, also threaten to reduce profitability, leading to more shake-outs and mergers.

There is some optimism that the industry will not plunge into the sort of deep recession that marked the early years of the 1980s, but for European and US truck makers the painful restructuring of the 1980s is still an uneasy recent memory.

1988 world truck production (6 tonnes and above)



Source: Navistar

COMPUTERS

Mainstays of the '90s

THE PAST decade has seen the worldwide computer industry transformed almost beyond belief. Who, in 1980, could have predicted that within 10 years International Business Machines, the world's largest and most influential mainframe supplier, would be chiefly dependent on personal computers for revenue growth?

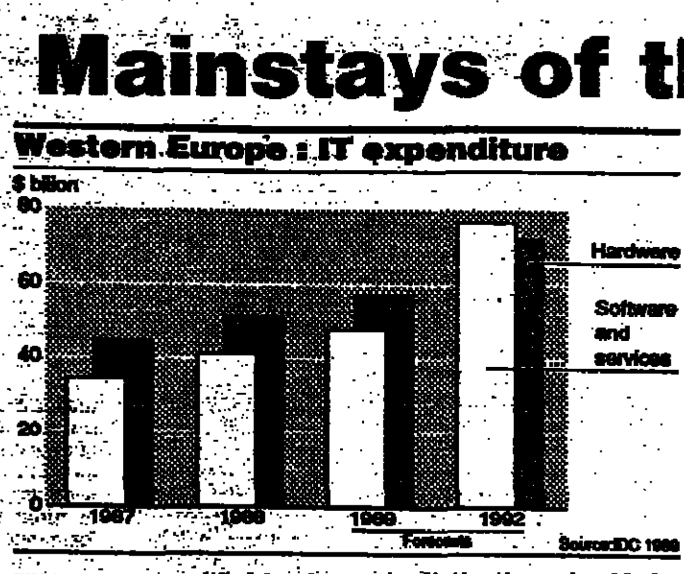
Or that Wang and Data General of the US, Norsk Data of Norway and Nixdorf of West Germany, all stars of the minicomputer revolution in the early 1980s, would now be struggling to return to profitability with few odds in their favour?

Who would have suggested that the leading application software companies, Management Science America (MSA) and McCormack & Dodge, would have been overtaken in revenues by microcomputer software companies Microsoft and Lotus Development Corporation. Or that MSA and McCormack & Dodge would be working in tandem as Dun & Bradstreet's software division?

The cause of the perturbation, what Mr Vittorio Cassoni, managing director of the Italian computer manufacturer Olivetti calls the "disease" of the computer industry, is the pace at which semiconductor manufacturers have been able to increase the computing power of microprocessors.

The major trend has been the shift to true 32-bit microprocessors, exemplified by the Intel 80/386 and 80/486 and the Motorola 68000 family, which emulate the processing capacity of minicomputers and small mainframes.

Western Europe : IT expenditure



These microprocessors, together with a new category of chips called risc (reduced instruction set computing) processors will be the mainstays of the 1990s. Computer companies whose products do not use these standard components will increasingly find themselves outside the mainstream of the computing world.

A distinction should be drawn between mainframes, large-scale data processing engines used by large companies as a central computing resource, and smaller machines. To talk of the demise of the mainframe is fashionable: in the US, for example, that market is mature and showing little more than replacement activity. In Europe, the picture is healthier while Asia represents a powerful opportunity for mainframe manufacturers.

It has to be emphasised that for many tasks there is no alternative to mainframe computers. They are tuned to handle high transaction rates and to maintain large files of computerised information.

Mainframe suppliers – IBM, Unisys, Bull, International Computers, NCR and Amdahl – can expect to maintain their markets although they will exhibit the characteristics of a mature industry – slow growth and a captive customer list, tied to their manufacturer of choice by software which will not run on any other manufacturers' machine.

IBM, for example, which still supplies about 60 per cent of the mainframe computers used by businesses worldwide, is now in the early stages of a technology transition from its 3090 mainframe family to machines which are expected to offer far greater cost-benefits – that is, more computing power per dollar spent.

Their customers' demands for extra computing power, however, cannot wait on the release of the new machines and they are leasing existing machinery rather than wait for the new range. The effect has been to depress IBM's revenues in the short term, although the long-term commercial effects will be beneficial.

It is in the mid-range, area, however, than the principal effects of the new technology are being felt. Computers here are used to support a small company or, perhaps, a department of a larger company.

The evidence is that the most cost-effective way to support this market is to supply industry standard hardware – "computing platform" is the current jargon – running software specially written for specific applications.

The standard computing platform of the 1990s now seems inevitably to be a computer based on the Intel 80/386 or 80/486 processors and running the Unix operating system. Companies competing in the mid-range which cannot offer such a system look like having a bleak future.

The trick will be to offer standard hardware for niche applications – Olivetti in financial systems, for example, or International Computers in retail. Some companies, Bull of France, for example, will make a virtue of offering both proprietary and standard systems, arguing that for many applications, proprietary architectures offer cost-benefits that cannot be obtained in any other way.

There is continual talk of mergers and acquisitions in the European computer industry, especially with the approach of the single unified market after 1992, but this seems now to be more a feature of the software house and systems integration world. Europe's leading computer manufacturers all have corporate structures which make an unwilling takeover difficult. What is much more likely is a continuation of the current trend to co-operation in research and development and towards co-operative marketing agreements.

The computing services industry, which includes software houses, computer bureaux and consultancies, faces a decade of threat and promise. As Mr Martyn Thomas, chairman of the UK software house, Praxis, points out: "In response to increasing globalisation of business, many companies are merging but these big companies may find it very hard to survive the pressures of the new decade when their major asset, their staff, can simply cross the road to a new competitor."

The 1990s will be the decade when the shortage of skilled computer staff, already endemic, will begin to bite seriously. It will be exacerbated by the demographic downturn, the declining numbers of young people emerging from the colleges and universities through the decade.

Already many software houses and systems integration companies are inhibited from taking on new projects by shortage of staff.

For computer users, the phenomenon is seen in the sudden and dramatic use of facilities maintenance, contracting outside companies to manage one's computing facilities. According to Mr Peter Lines of the US consultancy Input, "outsourcing" has become the single largest trend among major computer users.

For many large computer users, the problems of maintaining their own systems have simply become too great in combination with the problems of running a business.

Alan Cane

TELECOMMUNICATIONS

The calls of freedom

THE 1990s promise to be an exciting decade for the telecommunications industry, as the effects of deregulation in the latter years of the 1980s work through into genuine competition and as the modernisation of networks brings benefits to customers.

New technologies, such as mobile communications and data communications, which until now have been relatively small niche markets, are likely to become cheap enough to appeal to the mass market.

At the same time, the established telecommunications monopolies will find it more difficult to keep international phone prices artificially high compared with their true costs. As international phone prices fall to not much above the cost of ordinary long-distance calls, the globalisation of the world economy is likely to be given a further significant boost.

The reconstruction of Eastern Europe's economies after the retreat of communism will inject a new element into the world telecommunications scene. Almost all these countries suffer from poor telecommunications networks – waiting lists for phones are usually several years long and calls often fail to connect. Properly functioning systems are a priority for the new regimes in Hungary, Poland, Czechoslovakia and East Germany because, without them, it will be hard for other industries to get up and running.

It seems likely that the CoCom rules, which restrict the export of advanced technology from the West to the East, will be relaxed to allow modern telecommunications to be provided to much of Eastern Europe. But the challenge of how to pay for such a modernisation programme remains.

One solution may be aid. The Bonn Government pioneered this by promising East Germany old exchanges that it no longer needed.

Another will be joint ventures. The largest proposed to date is the construction of a trans-Siberian fibre-optic cable at a cost of up to $1bn as a venture between the Soviet Government and several Western telecoms operators.

In Western Europe, the main focus will be on how the private sector responds to the new freedoms in data communications services that have recently been agreed by the European Community. Value-added services are to be freed up across the whole Community during the course of the year, although an open market in basic data services will have to wait until 1993. During 1990, the Commission is also expected to turn its attention to liberalising the market in satellite services.

During the spring, the French Government plans to move ahead with its plan to give more autonomy to France Telecom and introduce limited competition. And in November, the UK Government begins a major review of the British Telecom and Mercury Communications duopoly.

Japan's next target may be mobile telecommunications

Throughout Western Europe, there will be immense effort on the part of manufacturers and operators to develop equipment for the pan-European mobile system, set to be ready for operation in 1991.

While Western Europe will be concerned with how it can pull together its fragmented telecoms networks, Japan will be asking itself whether it should split Nippon Telegraph & Telephone into smaller pieces. Officials in the Japanese Ministry of Telecommunications argue that NTT is currently too large to be efficient and obstructs the development of competition. NTT is resisting a break-up on the grounds that it would force local phone rates up and prevent smooth connections between different parts of the country.

In the US, attention will focus on what regulatory approach is taken by Mr Alfred Sikes, the new chairman of the Federal Communications Commission. The key question is whether the Bush Administration will seek to wrest control over important aspects of regulatory policy away from Judge Harold Greene – who oversaw the break-up of American Telephone & Telegraph – and give those powers to the FCC.

If this happens, will the FCC then give the "Baby Bells" the freedom to provide long-distance and international phone services, get into the information services market and manufacture equipment?

On the wider international scene, telecoms operators are expected to step up their fight to win the business of large multinational customers. The largest operators, such as AT&T, BT and MCI of the US, have been marketing themselves as being able to act as prime contractors for all the telecommunications needs of the multinationals. A landmark deal was signed last year when AT&T won the contract to supply a global network to General Electric of the US.

Towards the end of 1990, the question of how telecommunications services should be treated in the current Gatt trade round could become a live issue.

On the equipment side, most of the action will be in terminals and new infrastructure projects such as intelligent networks. The established Western manufacturers have already largely lost out to competition from Japan in providing terminals. The exception is mobile communications, where Motorola of the US and Ericsson of Sweden hold strong positions. But they may need to fight hard to retain them, given signs that the Japanese electronics groups are about to target this market.

With intelligent networks, which involve the creation of large computerised databases, the established makers face a threat from a different source – the US computer companies.

Given all this excitement in the First and Second Worlds, Third World countries – which often lack basic services and have little money to invest – are in danger of being left further and further behind.

Hugo Dixon

ELECTRONICS

'Threat to US security'

THE WORLD'S electronics industries enter 1990 preoccupied with two major issues. The first is the continued threat which Japan presents to the semiconductor and consumer electronics companies of Europe and the United States.

The second is the tentative progress of democracy in Eastern Europe, which could upset the well-laid plans of several Western defence companies.

In the US, semiconductor companies start the new decade uncertain how far their governments will be prepared to help them stave off the challenge from Japan.

A recent report from the National Advisory Council on Semiconductors warned that the decline of the American semiconductor industry posed a serious threat to US national security. It called, among other things, for government research and development support to assist the semiconductor industry. But the report has received a frosty reception from the Bush Administration.

The US has also signalled that it may cut Federal support for Sematech, the semiconductor industry consortium. Sematech is partly funded by the Defence Advanced Research Projects Agency. Such cuts will meet stiff resistance in Congress, where critics such as Mr Richard Gephardt, the majority House leader, have accused the Bush Administration of "letting our industry slip through our fingers."

American chip-makers fear that apart from the threat from Japan, the European semiconductor industry has become more protectionist. The Joint European Submicron Silicon (Jessi) project is backed by the European Commission, several governments and most leading European information technology companies.

This year will probably see a continuation of attempts to forge collaborative links between European and US companies. Mr John Akers, chairman of IBM, says his company has applied for membership of Jessi. However, European firms which manufacture chips in the US have not so far been accepted as members of Sematech.

Mr Bipin Parmar of Dataquest says that Europe is already benefiting from the "1992 effect". Japanese and US electronic equipment manufacturers have set up plants in Europe to take advantage of the single market or are planning to do so. Responding to increased demand from these companies, which are anxious to meet local content requirements, foreign chip suppliers are also building plants in Europe.

Dataquest says that the slowdown in the world semiconductor industry which began in the third quarter of 1989 will last until the end of the first quarter of 1990. Both vendors and users still have high levels of semiconductor inventories and there has been a marked slowing of semiconductor order rates. The situation will begin to improve in the second quarter of 1990. By the fourth quarter shipments should be reasonably strong.

Dominance in HDTV may give Japan other advantages

Dataquest believes that computer demand should have picked up by this point, inventories should be down and prices stronger.

This year will also see a continuation of the struggle to create a single standard for high definition television (HDTV). The emotions aroused by the HDTV issue are not restricted to the level of sales they might achieve. Europeans and Americans fear that Japanese dominance in this area could lead to Japan winning advantages in other sectors too, such as computers and semiconductors. HDTV pictures could be used for computer screens. And HDTV sets would use large quantities of memory chips and microprocessors.

The battle over standards revolves around the number of lines that high definition television sets will have on their screens. The number proposed by the Japanese would mean that HDTV would not be compatible with existing sets. An additional problem for the Americans is the fear that the Bush Administration intends to cut funding for high definition television, too.

As to the consumer electronics sector as a whole, Mr Mike Brewerton of BIS Mackintosh expects total sales worldwide to be $117.1bn in 1990, 5.9 per cent up on 1989. Growth rates will be similar around the world, with Japan up 5.3 per cent to $26bn in 1990, Europe up 5.6 per cent to $41.4bn, the US up 6.5 per cent to $26.3bn, and the rest of the world up 6.3 per cent to $23.4bn.

Mr Brewerton says that most of the world's consumer electronics markets are "pretty well saturated. In the developed world, market penetration is close to 100 per cent. In Japan, the US and most of Europe it's a replacement market. The exceptions are camcorders and compact disc equipment. In Europe we're seeing about 30 per cent growth in camcorders. In the audio market, we're seeing 9-10 per cent growth in Europe which is purely driven by CD."

Eastern Europe might be a future area of growth for consumer electronics manufacturers and vendors. But for the moment, Mr Brewerton points out, Eastern European countries are constrained by a shortage of hard cash.

Western defence companies will be watching developments in Eastern Europe carefully in 1990. Western defence spending is already slowing and a reduction in East-West tension will accelerate the process.

Lord Weinstock, managing director of Britain's General Electric Company, takes a fairly relaxed view. "In the short term nothing much is going to happen, at least in the businesses we're engaged in," he says. "We can't foresee that defence expenditure will come to an end or fall very abruptly. Whatever scenario you offer, I don't see one which says you don't need defence equipment."

Most agree, however, that the European arms industry faces further consolidation. GEC and Siemens' takeover of Plessey and Daimler-Benz's acquisition of Messerschmitt-Bölkow-Blohm are unlikely to mark the end of the process.

Michael Skapinker

MECHANICAL ENGINEERING

A year of 'cooling off'

THE PAST 12 months in the mechanical engineering and general equipment sectors have been marked by two characteristics.

Firstly, demand for a broad range of equipment, particularly that associated with factory floor production, has gone through the roof in most modern economies.

This has been particularly so for Japan and for the countries of the European Community. For some sectors, such as machine tools, sales and output have broken records in the two main producer nations, Japan and West Germany.

Secondly, bouts of rationalisation have considerably reshaped the ownership structure of some, though by no means all, sectors. This has been most striking in power engineering. But it has also affected the forklift truck sector, parts of the diesel engine industry, construction machinery, paper and food making machinery and the UK machine tool industry. Some of this has been done through significant cross-border mergers.

Strong demand for many types of products looks as if it will continue through much of this year. Many factories are creaking under the weight of orders and have no spare capacity. But there is a widespread belief that demand may start cooling off from the middle of 1990. In the US and the UK this is already happening.

The US and the UK are likely to record substantial falls in the growth of demand for some types of equipment, perhaps even showing some real decreases. Demand for production equipment is likely to be up by little more than the rate of inflation in the UK, while sales of construction machinery will continue to fall.

Agricultural Equipment. Worldwide demand for tractors above about 25 hp was 1.25m in 1988, according to the UK's Agricultural Engineers Association and is likely to be the same last year and this year.

The depressed US tractor market might pick up a little this year but not to the level once expected. It will be well short of the 100,000 units for tractors of 40 horsepower and above that some predicted.

The UK farm tractor market fell from 22,500 in 1988 to about 20,000 last year. It could drop a further 1,000 units in 1990.

Construction Machinery. Komatsu, the Japanese construction equipment maker expects the soaring demand in its domestic market to show signs of weakening towards the end of this year.

The US and West German markets should be fairly static, says the Corporate Intelligence Group, a UK analyst, but that in France might grow.

The UK market though will continue to fall, probably back to 1987 levels, after two years of heated demand.

Overall trends have been towards smaller types of machines in Europe during the past few years. If the UK's new road programme gets under way, it could lead to a partial move back to bigger machines.

Production Equipment. Total world market for machinery to prepare, process and package food is worth about £15bn. The two biggest equipment suppliers, APV of the UK and Sweden's Alfa Laval are looking for growth of about 15 per cent this year for their businesses, though some of this will come from acquisitions.

The world machine tool market grew from $31bn in 1987 to $38bn in 1988. The American Machinist magazine, the sole source of industry-wide statistics, thinks the market in 1989 will turn out to be above 1988, certainly by more than the average rate of inflation.

The outlook for 1990, according to Mr Joe Jablonowski, the magazine's editor, will be fairly static. Demand in some countries, particularly the US, has already begun to level off. Some markets might even fall.

The German and Japanese domestic markets are likely to remain strong but production will not increase much, if at all, because their factories are already working at full capacity. Japanese machine tool production in 1989 was above the previous all-time high of Y1.05 trillion in 1985.

The paper making machinery sector has enjoyed the longest and biggest production upturn that it has ever experienced. However, Valmet, the Finnish company which is the world's biggest supplier of machines, believes this strong growth is coming to an end because of over-capacity in the world's paper industry.

Power Engineering. Suppliers of equipment for power stations and electricity distribution systems still strongly believe that the world needs a lot more new stations.

General Electric of the US thinks there is need for 88 gigawatts of new capacity in the US alone over the next decade.

Orders so far for 1990 are arriving in a trickle rather than a flood. There is no doubt, though, that the trend in the short term will be for more small gas-fired power stations in Europe and North America.

Ownership. Two trends have been changing the ownership structure of heavy engineering. One is of mergers and takeovers. The other is the increasing number of greenfield plants set up, and companies purchased, by Japanese manufacturers in Europe and North America.

In power engineering, there have been so many takeovers and joint ventures in the past two years that rationalisation, while still continuing, must begin to taper off. In other sectors, such as machine tools, the industry's fragmented, largely family-owned structures will continue.

In many other business areas, though, the sheer number of companies, pressures emanating from the move to an integrated European market and historically low profit margins will continue to encourage consolidation.

As for Japanese companies, a few years ago their transplants in Europe and the US were mostly confined to ball bearings and machine tools. Now Japanese companies also have or are planning stakes in factories to make construction machinery, power tools and large electrical equipment among other sectors. The Japanese presence in heavy engineering, particularly in Europe, will grow, but probably only slowly.

One major question concerns the speed at which Japanese equipment makers will resume a strong interest in exporting once the current boom in their own domestic market cools off. This will certainly happen but possibly not this year.

But some Japanese companies will not wait so long. Thus Yanmar, which makes small diesel engines, says it intends taking a much larger share of the European market with a new range of air-cooled units.

Nick Garnett

STEEL

Marginal fall

OVERALL WORLD steel consumption this year will decline though only marginally, while demand in newly industrialised countries such as Taiwan and South Korea will continue to rise, writes Nick Garnett.

There will be further weakening of prices in mature Western markets after nearly three years of increasing production and strong price levels.

And there will be more ownership restructuring – more joint ventures between Japanese and US companies, similar cross-border deals in Europe with, perhaps, one or two outright purchases of European steelmakers.

Meanwhile, declining steel demand in Europe could result in new pressures to resume the *regime of internal quotas and* subsidies in continental Europe – finally ended last year – though a resumption of subsidies seems unlikely.

Steel consumption last year was predicted to fall by the International Iron and Steel Institute. But instead, it rose to a cyclical peak though total output was up by only just over 1 per cent in the year.

However, there is every reason to believe that the institute's expectation of an overall slight fall this year in consumption and production will prove justified. This follows almost three years of general production upswings, though with significant variations. Steel demand fell in the US in 1989, for example, but rocketed 20 per cent in Taiwan.

Demand for steel in the US peaked in 1988, fell back by almost 7m tonnes last year and is expected to drop a further 5m tonnes this year to a level of about 100m tonnes.

By contrast, Japan's consumption soared by almost 6m tonnes *last year to 93m tonnes* and is predicted to fall by only 3.5 per cent or so this year.

Developing Asian countries led the growth race last year with consumption jumping by a fifth in Taiwan, and by 12 per cent in South Korea. These countries expect to register strong, if not so spectacular, growth this year, of 6.7 and 2.8 per cent respectively.

The institute estimated in *October that* Western world consumption of steel last year would be 494m tonnes, 1.8 per cent above 1988. Using a static figure for production in the centrally planned economies, that gives a world production figure of 791m tonnes last year.

Ownership changes and joint ventures in the steel industry have taken many forms. There have been seven or eight joint ventures in North America between Japanese and US companies. All US integrated steelmakers except for Bethlehem have forged alliances with Japanese producers.

The Americans have wanted Japanese technology, the Japanese have wanted an inroad into the US market and have been following their own car industry into North America.

More of these deals could be agreed this year but there are indications that some Japanese companies are less than happy with the way things have gone.

Some takeovers of steel companies by other steel producers have occurred recently. For example, Dofasco in Canada bought out another Canadian company, Algoma, and Usinor-Sacilor of France acquired West Germany's Saarstahl.

But cross-border takeovers are very difficult to achieve in steel and there will be more opportunities for joint ventures, particularly in Europe.

Several are under way, such *as the pooling* of Usinor-Sacilor's bar and electrical sheet operations with Cockerill-Sambre of Belgium, the French company's sheet piling and rail production with Arbed of Luxembourg and its reinforcing activities with Riva of Italy.

A key issue is the structure of both the West German and Italian steel industries.

In West Germany, Preussag, the industrial and energy *group*, bought Salzgitter last year. Viag, the energy and chemicals concern, acquired Kloeckner, the steel trading group, and Saarstahl was taken over by Usinor-Sacilor.

Though efficient, the German industry still requires substantial restructuring. And so does the Italian steel industry, some of whose biggest producers are making no profit.

A final question-mark hangs over the South Korean and Taiwanese steel industries and whether they will break out from their domestic production base. Sammi of South Korea has already made an acquisition in Canada and this could be a sign of things to come.

AEROSPACE

More, bigger civil aircraft

THE WORLD aerospace industry is riding on the crest of a sustained boom in commercial jet aircraft demand which is set to last well into the next century. However, the industry's overall prospects have been clouded of late by growing concern over the impact of cuts in Western government defence spending.

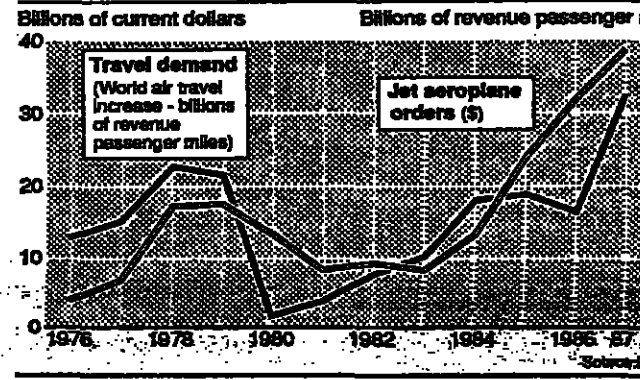
But these are expected to affect aerospace and military aircraft programmes less harshly than other military sectors such as land base equipment. Industry officials say it is still too early to quantify the repercussions that defence budget cuts and detente could have on military aerospace programmes.

Nevertheless, all the major aerospace groups now place increasing emphasis on expanding and developing their civil operations. For example, civil engines now accounting for about 60 per cent of Rolls-Royce orders.

A recent study by the group of the market potential for commercial jet aero-engines between now and the year 2003 estimates demand for new aircraft will total 8,395. Boeing, the world's largest commercial aircraft manufacturer, forecasts a total open market requirement totalling $414bn between now and the year 2005. Boeing itself received orders for 888 jetliners in 1989, worth a total of $46.8bn, and has an order backlog worth about $85bn.

The Seattle-based company estimates that, of future commercial aircraft deliveries, 71 per cent will be because of growth and only 29 per cent to replace retired aircraft.

Aeroplane orders v travel demand



Like Boeing, McDonnell Douglas and the European Airbus consortium have chalked up record orders for their new commercial aircraft. Manufacturers of smaller regional jets such as Fokker of the Netherlands have also enjoyed buoyant demand in the wake of the industry's growth. And all this has meant sustained business for aerospace components manufacturers and the large engine manufacturers.

But booming demand has also engendered its own problems. Manufacturers of airframes and components have been under pressure to meet bulging commitments. For Boeing, these problems have been exacerbated by recent labour unrest. The UK engineering union strike for shorter hours has also had an impact on Airbus production.

Moreover, the demand for commercial aircraft has in no way relaxed the competitive climate in the industry. Part of the explanation for this heightened competitive environment is the emergence of Airbus as a major rival to the traditional US dominance of the commercial jet market. The four-partner Airbus consortium has now scored a commercial success, with firm orders for 400 aircraft in 1989.

Its A-320 twin-engine 150-seat short to medium range aircraft, coupled with the new stretched A-321 version, have proved best-sellers. Airbus has also stolen a march on Boeing by developing its new long range wide-body A-330 and A-340 family of aircraft.

However, Airbus has continued to be dogged by internal problems and efforts to restructure the consortium on more commercial lines. The political rivalries within Airbus *have recently been high*lighted by a Franco-German dispute over plans to transfer the A-320 final assembly line from Toulouse to Hamburg.

But there are now signs that Airbus is starting to be run on a more commercial basis. For the recently launched A-321 programme, the consortium tendered out on a competitive basis work on the $450m programme between its partners. It is also seeking for the first time funds for the A-321 programme from the commercial market-place instead of relying on government support.

With the expected increase in demand for large capacity aircraft – from 1994 to 2005 more than three-quarters of new aircraft deliveries are likely to involve airliners with more than 240 seats – both McDonnell Douglas and Boeing are actively addressing this market. McDonnell Douglas pins its hopes on its MD-11 large capacity trijet and also plans a stretched version of the new aircraft. Boeing is set to unveil plans for a new wide body twin-engine airliner, to be called the 777, this year.

Paul Betts

AIRLINES

Musical chairs

AIRLINES last year carried the equivalent of about one-fifth of the world's population. By the year 2000, air travel is expected to double. Almost a quarter of world trade in manufactured goods is now transported by air and the proportion is growing, writes Paul Betts.

These figures, highlighted in the latest economic outlook of the airline industry by the International Civil Aviation *Organisation (ICAO), underline* the growing importance of air transport in the world economy. But while air transport is headed for continued growth in the next decade, the airline business faces challenges in coming years which are likely to lead to a major shake-out in the industry as a whole.

The driving forces behind the sea changes taking place in the industry are liberalisation *and deregulation. These are* now forcing major airlines to adopt a global approach to business and have already prompted a spate of co-operation and cross-shareholding agreements between large air*line companies.*

"Everybody is playing musical chairs with everybody else and is worried stiff about being left out," says Mr Michael Bishop, chairman of British Midland, which has established close ties with SAS, the Scandinavian carrier. SAS, with a stake of nearly 25 per cent in British Midland, has also invested in Texas Air in the US and forged ties with Swissair.

In turn, Swissair and Delta of the US are buying 5 per cent stakes in each other, while Delta has reached a similar agreement with Singapore Airlines. KLM, the Dutch airline, has invested directly in the buyout of Northwest in the US, while Air France and Lufthansa have announced a co-operation agreement.

But in many respects British Airways set the pace for the latest round of dealmaking and co-operation fever in the industry. BA's global strategy has included a marketing agreement with United Airlines in the US, coupled with its recent failed attempt to invest in a direct stake in the second largest US airline. It has also included negotiations to acquire a 20 per cent stake in Sabena, the Belgian airline, with the aim of developing Brussels as a new European base for the UK flag carrier.

Deregulation and privatisation are not the only forces prompting greater co-operation and moves towards greater concentration in the airline *business. New* computer reservation systems have become key marketing weapons in the new global airline environment. At the same time, airlines have jostled for control of airport departure gates and take-off and landing slots in an increasingly congested ground and air traffic system.

European airlines have been particularly haunted by the lessons of 10 years of deregulation in the US where the industry has now become concentrated in a handful of powerful giant airlines. Like US companies, the European airlines have also sought to develop hub and spoke systems with central hub airports fed by traffic from smaller cities and then feeding on passengers to other destinations.

With the decision of the European Community to liberalise air travel in Europe by 1992, pressure has been mounting not only for European airlines but also for US and other international *carriers to position* themselves ahead of the new European single market. American Airlines, the Western world's largest carrier, has been especially aggressive in seeking new routes to Europe.

But while the European Community is now seen as the main battleground for the industry, airlines are already beginning to manoeuvre in south-east Asia, which is expected to show the biggest growth of any market in the next decade. And the changes in Eastern Europe are also expected to have a big impact on the airline industry.

CHEMICALS

Downturn fears after recovery

THE WORLD'S chemicals industry, only a decade or so ago written off as a declining force, has surprised onlookers by the extent of its recovery over the past three years.

The business, one of the biggest international manufacturing sectors with annual sales of about $1,000bn, has undergone both a boom in profits and a fundamental change in direction in which research-intensive products are being emphasised at the expense of older, lower value items.

Worries persist in the sector, however, as to the degree that the industry could be affected by any downturn in the early 1990s in demand in the broadly-based consumer and industrial markets to which chemicals are mainly sold.

Chemicals is an inherently cyclical business and the fear is that some kind of downturn will almost inevitably hit home in the next two to three years to counterbalance the good times for the industry in terms of both demand and profits since the mid-1980s.

Other pressures are certain to come from the increased environmental standards being demanded by governments and consumer groups in many parts of the industrialised and developing world.

The chemicals industry is by its very nature a large-scale producer of waste materials. In the past it has had an extremely poor record for discharging these with minimum fuss into the air and rivers and as solid landfill. But as environmental concern has grown, in the past decade the industry has been forced to tidy up its activities in pollution control and has in recent years spent heavily in this area.

Much more action, however, is likely to be demanded over the next few years. That could lead to further heavy costs for the industry – at a time, perhaps, when due to the likelihood of a slip in profitability it is least ready to face up to the need for extra spending.

Such a complex industry, viewed both in terms of production and markets, resists efforts at categorisation. None the less, it lends itself to a division something along these lines:

■ **Petrochemicals.** This is the heavy, oil-based end of the industry in which a small number of raw materials derived from fossil fuels such as naphtha or ethane are transformed into hundreds of basic organic chemicals. These products then work their way into consumer or industrial goods by perhaps dozens of separate production steps. The big petrochemical producers include oil groups such as Shell, Exxon and BP, together with the world's top four chemicals companies – BASF, Bayer, Hoechst and ICI.

■ **Plastics.** This is a $150bn-a-year industry in its own right, with four-fifths of output taken up by just four big-selling materials, polyethylene, polypropylene, polystyrene and polyvinyl chloride. These bulk plastics are all derived from basic organic materials and consequently all the petrochemicals majors are also large plastics suppliers.

■ **Inorganic materials.** The sector adds up to one of the oldest parts of the industry, dominated by the large global companies and with products used mainly as intermediate materials in other chemical processes rather than items sold directly to other users. Such products include sulphuric acid, chlorine and soda ash. Also part of this sector are artificial fertilisers, based on materials such as ammonia, urea and potassium salts.

■ **Speciality chemicals.** An area that is almost impossible to define, which encompasses thousands of different product fields from pharmaceuticals and crop-protection compounds to paints and water softeners. Many large chemicals groups have moved into speciality materials in recent years because they believe that such products, linked to technological advances and geared to relatively small market areas, should offer better returns and be less prone to the cyclical downturns which affect the traditional parts of the chemicals industry.

There are probably four key questions to which the answers over the next few years will serve as a good guide as to the shape of the sector as it enters the 1990s:

1. How are bulk chemical prices bearing up? Prices for many commodity materials such as ethylene (the building block for a large number of oil-based chemicals) and high-volume plastics soared over the period 1986-88 but have stabilised in recent months, signifying in many people's minds the beginning of the end of the chemicals boom. Which way the prices go over the next 12 months will greatly affect the industry's fortunes.

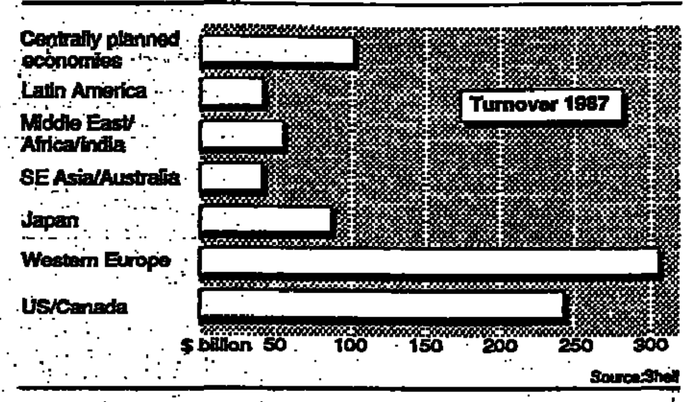
2. To what degree are new speciality markets developing? New ideas for selling relatively novel materials such as high-strength composites and engineering plastics in wide industrial areas have been a feature of the chemicals scene for several years. But some of these markets have yet to demonstrate that they have real long-term growth potential.

3. What is the role of the Japanese? In contrast to the Japanese performance in electronics, cars and engineering, Japan's main chemicals companies are also-rans in terms of the world industry. In recent years, however, some of them have been flexing their muscles by taking small stakes in overseas operations, particularly in relatively new areas such as engineering plastics, where Idemitsu, Mitsubishi Gas Chemicals and Toyobo may be names to watch.

4. How bad is the industry's image? If, in a year's time, as many people as now view the business mainly in terms of its propensity to pollute, then the sector will face a tough public relations struggle in the 1990s.

Peter Marsh

World chemical industry - total market



Source:Shell

PHARMACEUTICALS

In tough times, bigger is better

MR JAN EKBERG, president of Kabi, a small Swedish pharmaceutical group, spent the days immediately before Christmas feeling worn-out but happy, writes Peter Marsh.

Mr Ekberg had just doubled the size of his company's drugs revenues via a complicated deal involving Procordia, Kabi's partly state-owned parent, taking control of Pharmacia – another Swedish healthcare group.

"We will now be in the top 20 (in pharmaceuticals) in Europe," said Mr Ekberg, of the combined Kabi-Pharmacia concern. "There will be a boost to research and and marketing and we will be better placed to operate internationally."

The Kabi-Pharmacia group will have drug revenues of about SKr8bn (roughly $1.2bn), putting it in a middling position in the league table of medicine companies. The thinking which led to the group's formation followed to the letter the general philosophy in the $150bn a year world drug industry – that bigger almost invariably means better.

According to this viewpoint, the massive surge in both marketing and research costs in the business over the past decade is forcing companies to operate on an increasingly international basis to crank out the maximum returns.

At the same time, ways of treating disease around the world are showing a steady, if not always rapid, convergence, making it possible to market essentially the same medicine on a fully international scale.

The coming together of Kabi and Pharmacia followed several bigger restructurings in the medicine industry in the past year with much the same philosophy. Beecham of Britain merged with SmithKline Beckman of the US while new companies were formed through the marriage of two pairs of large US drugs companies – Squibb and Bristol-Myers, and Merrell Dow and Marion.

Converging ways of treating disease around the world

At the same time, other medicine companies have been dusting down their corporate strategies in an effort to refocus their activities and shed unpromising operations.

Thus Imperial Chemical Industries of Britain is moving out of the over-the-counter (OTC) or non-prescription part of the industry – which accounts for an estimated one-fifth of the total world business with all the rest taken up by prescription-only products. Ciba-Geigy of Switzerland is, meanwhile, moving in precisely the opposite direction, having decided that the growth in interest among consumers in treating at least minor ailments themselves makes OTC a good bet for the 1990s.

While the drugs industry as a whole has experienced good growth over the past decade, it is possible to detect behind the restructurings a feeling that the next few years are going to be ultra-tough and that only the giants of the industry with properly honed business strategies are likely to prosper.

These thoughts are based on several factors:

■ Prices for drugs, which in many countries are paid for by state health agencies or private insurance organisations, may start to slide in the 1990s or at least not rise by the amounts seen over the past decade. In Britain, the US, West Germany and Japan, government health programmes are coming under pressure on costs – and one easy way to attack these is to cut the medicines bill. In the European Community, the single market after 1992 is thought likely to lead to lower prices across the region.

■ The rise in research costs across the industry shows no sign of slowing down. Many big medicine groups spend 10-15 per cent of their revenues on research and development, with much of the cash being spent on the lengthy trials needed before formulations are able to gain product licences. The complexity of the trials, and so the amount of money being spent, has increased significantly during the 1980s.

Demand is likely to increase virtually without limit

■ The early 1990s will see increasing competition for many top-selling drugs from generic (or copycat) products – which are cheaper imitations of the original formulation that are permitted to go on sale once the patents on the latter expire. According to Barclays de Zoete Wedd, securities arm of the UK bank, 19 out of the 50 top-selling drugs will lose their patent protection in the US, the world's biggest market. Because of this, sales and profits of the companies making these drugs may show a slowdown in growth.

Against these relatively gloomy projections, some other aspects may give the industry grounds for optimism. Treatment or prevention of disease and ill-health is one of the few industries for which demand is likely to increase virtually without limit. While medical conditions such as bacterial infections and mild heart problems can be treated reasonably well with existing medications, scientists are still in the early stages of being able to combat illnesses such as cancer and viral conditions such as AIDS.

While the scientific complexities of tackling such conditions are undoubtedly taxing – which is one reason why relatively little progress has been made so far – many in the drugs industry are confident that advances in molecular biology and other related fields over the next decade will give them a range of powerful formulations to attack such scourges of the human race.

PULP AND PAPER

Supply up, but prices go down

AS THE pulp and paper industry worldwide contemplates the 1990s, it faces important challenges. The sector has enjoyed one of its longest stretches of prosperity, with production rising annually since 1982. Prices have risen too, and companies have been able to increase profits and reinvest in their businesses.

There is now little doubt that this period has come to an end. Hopes that the notorious paper cycle could have been broken were always unrealistic. Long lead times and the size of investments made are such that it is in the nature of the industry to have periods of "boom and bust."

As the industry has become a global one, with pulp and paper traded across frontiers, no one market can be immune from problems in another. A downturn in demand in North America, for instance, will often mean production being sold into Europe or south-east Asia instead. Prices differ by the cost of transport.

Demand for pulp depends on demand for paper. That in turn is closely linked to economic growth. During the 1980s the growth in economies such as the US, UK and the Pacific Rim countries has led to more use of paper. The expansion of publishing through the launch of newspapers and magazines, the strength of advertising, and the demand for packaging as consumer goods sales have risen, have all contributed to rising demand for paper. In 1990 that growth is weakening.

Pressure on the supply-demand balance does not only come from the demand side though. Production capacity of pulp and paper has not been able to keep up with demand because it takes years rather than months to build new capacity. As demand rose, existing capacity was filled – making good profits for its owners – to the extent that percentage operating rates were in the high 90s.

As economic theory dictates, prices increased as a result. Pulp prices have more than doubled, with the benchmark grade up from $400 a ton at the end of 1985 to $840 today.

But supply is now increasing too. Projects planned while the market was strong are soon to come on stream. As so often happens, the new capacity will arrive just as the markets are weakening. The American Paper Institute recently estimated that US paper makers will increase their capacity by 10 per cent over the next three years, a faster rate of expansion than in the 1980s.

The cost of investment is enormous – a new world-scale pulp mill can cost as much as $1bn – and so operators want to run their plants as full as possible. To do that, they often cut prices in the hope of gaining market share. In the past this process has led rapidly to sharply falling profits, and eventually to capacity closures.

Companies know that the most likely survivors are those with the lowest production costs. This has encouraged technologists to build bigger mills with wider and faster paper machines to take advantage of economies of scale.

In Norway, the number of pulp and paper mills has fallen by two-thirds over the last 25 years, while output has more than doubled. In the early 1980s an optimum site for making lightweight coated paper, for magazines, would produce 150,000 tons a year. The optimum now is around 350,000 tons and by the mid-1990s might be 500,000 tons.

However, building such a mill means that when capacity comes on stream the incremental increase in supply is large, and markets where growth rises gradually cannot easily absorb the extra production.

Already there are signs of price weakness in some areas. Newsprint prices, for example, are tumbling as discounting has started in North America, even before much of the expected new capacity has appeared. This has spread out to other markets around the world.

At the same time as paper makers face bleaker prospects, they must also tackle environmental problems. Nasty chemicals are involved in the pulping and bleaching processes. Controlling emissions from mills is going to require yet more costly investment.

Pressure from environmen-

Continued on Page 8

WORLD INDUSTRIAL REVIEW 8

ENERGY

Asia is the growth area

THE OIL industry enters the New Year with the usual uncertainties about the course of supply and demand magnified by failure to make accurate forecasts over the past year.

The Organisation of Petroleum Exporting Countries is expected to produce close to 23m barrels a day in the first half of the year. While most in the industry believe this will significantly overshoot world demand and cause at least temporary price weakness, the persistent recent strength of the market has raised doubts.

UK North Sea production is likely to recover this year following the accidents and maintenance problems that reduced output in 1989, but it remains an important area of uncertainty, with many North Sea operators planning a heavy schedule of summer maintenance.

Soviet exports also look in doubt, but what the actual cut in exports will amount to is anybody's guess. US production should continue its gradual decline.

Demand in Britain, especially, should be sluggish, reflecting the economic climate. It will not be much better elsewhere in Europe or North America, although US imports will rise. The biggest source of growth will continue to be in Asia – Japan and the rapidly growing economies on the Pacific rim and this is likely to continue strongly as long as the world economy grows.

The International Energy Agency expects developed country demand to grow by 1.6 per cent in the first nine months of this year.

The North Sea remains an area of active investment. Big oil companies are likely to continue redirecting investment away from the US to less well explored areas, including some recently opened basins like Vietnam and Burma. Such places as Syria, Yemen and Gabon will continue to see high levels of exploration.

The big private oil companies, while still dominating international trade, refining and marketing, are being overshadowed by the huge reserves of national oil companies from the Opec countries, such as Saudi Arabia, Kuwait or Venezuela. These countries are continuing to search for ways to integrate downstream and will be seeking deals with private sector partners, some of which may involve yielding access to their upstream resources.

Creation of a single European market will exert less influence on oil than many other industries, in part because the industry is already largely internationalised. However, proposals, still preliminary and vague, to create a common carrier gas pipeline system on the Continent could lead to a broad transformation of this industry.

UK petrol marketers are awaiting possible government action to reshape the retailing industry stemming from a monopolies investigation concluded in December.

Environmental pressures are exerting a progressive influence on the oil industry, and the pattern for the future could well be set in the coming years.

The trend toward higher fuel standards looks set to continue and this should lead to higher refinery utilisation rates that help refining margins. Worries about oil spills and higher standards for refinery effluents will impose greater operating costs. In the longer run an expected government-imposed lowering of sulphur levels in fuel oil could lead to huge investment programmes and further raise the price premium on low-sulphur crudes.

Imposition of carbon taxes, and or similar measures, could cut into expected oil demand growth in the industrialised countries, but looks less likely to affect developing country demand.

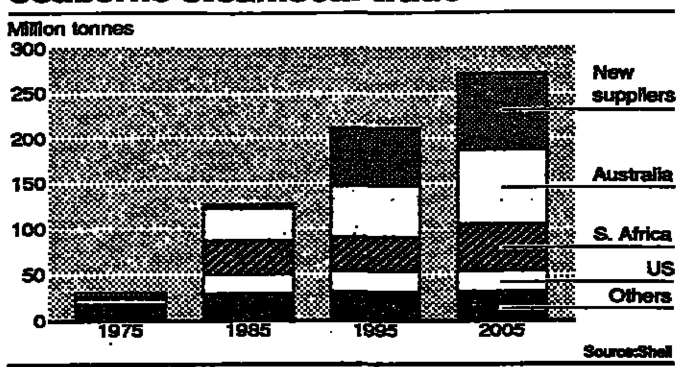
On the positive side environmental concerns have renewed interest in natural gas, a cleaner fuel, leaving many companies in a position to benefit. Shell's decision last year to proceed in Malaysia with a gas-to-liquid fuels conversion plant has raised prospects for eventual development of remote gas reserves.

Steven Butler

COAL

Scaling down of forecasts

Seaborne steamcoal trade



LAST YEAR, a Shell executive announced that the world was living in the second coal age. He was referring to the revival in coal's fortunes since the oil price explosions of the 1970s, which restored coal as the unchallenged fuel for power stations and cement works, and evoked memories of its paramountcy before the First World War.

In only 16 years, total world production of hard coal (excluding sub-bituminous fuels such as lignite) has increased by more than half – from 2.1bn tonnes to 3.3bn tonnes a year. In the non-Communist developed countries of the OECD, annual output rose from 900m to 1.2bn tonnes.

In the second half of the 1980s, it became increasingly apparent that this rate of output could not be sustained and there was a steady scaling down of demand forecasts – by the year 2000 OECD coal demand is now put at 1.3bn tonnes, only 100m more than last year's demand.

This caution was due to revised outlooks for economic growth rates rather than any second thoughts about the centrality of coal within the energy market.

Nevertheless, the growth has been far from smooth and tensions and uncertainties lie ahead, particularly over the global effect on the environment of large-scale use of fossil fuels. When coal was readopted as the main electricity fuel in the 1970s, the aim was to end reliance on volatile oil producers and ensure security of electricity supplies.

However, coal's prospects are now bedevilled by anxiety about "acid rain" pollution caused by emissions of sulphur and nitrogen and the warming of the global atmosphere by a build-up of carbon gases.

More than any other issue, the environmental factor has impelled rival producers in the non-Communist world to sink their commercial differences in a joint effort to understand their problems and promote cleaner ways of burning coal.

On the commercial front, a key feature of the second coal age has been the creation by the major oil companies of an international trade in coal for steam raising (there was already a lively trade in the specialised coking coals used for blast furnaces).

From a mere 30m tonnes a year in 1975, the volume of steam coal sold on the international market last year reached 189m tonnes and may rise to about 280m tonnes a year by the year 2000.

The main markets are the expanding economies of south-east Asia, but the trade also threatens the older coal industries in Western Europe.

Most of the new coal comes from opencast mines with rich, shallow seams and far lower costs than the deep mines of Britain and West Germany, whose best deposits were exhausted generations ago.

Even so, the new mines have their problems. The big El Cerrejon project in Colombia, in which Exxon is heavily involved, is far behind target in winning a commercial payback on its investment.

The newcomers have also encountered surprisingly tough resistance from the older industries. In West Germany, the coal mines are defended by national subsidies despite the anti-protectionist policies of the European Community.

In Britain, penetration of the coal market from abroad has been checked by lack of docks capable of handling large ocean-going coal ships. The cost of transhipping coal to smaller vessels at Rotterdam, as well as the inconvenience of getting it to England's inland power stations, can offset the difference between British Coal's costs and those of overseas competitors.

But the main obstacle has been the success of Britain's coal industry in doubling productivity since the traumatic strike of the mid-1980s.

Although coal imports are expected to increase in the 1990s, (power station orders next year have been trebled to 6m tonnes) British Coal has succeeded in clinging to the bulk of its business for the first three years after the electricity industry is privatised.

In the first two years of this period, it will supply at least 70m tonnes a year to the power stations, followed by 65m tonnes in the third year.

Both British Coal and the Government cite environmental rather than commercial reasons for accepting the 5m tonnes reduction in the third year. This coal, they say, will be replaced by 5m tonnes of lower sulphur imports needed to help Britain meet tighter sulphur emission standards.

Maurice Samuelson

ALCOHOL

A better image, higher prices

CLAIMS that consumers are "drinking less but better" are currently tripping from the tongues of the world's alcoholic beverage marketeers.

It is a maxim to which the industry will be wedded in the 1990s. International drinks companies face growing public and government concern over the misuse of alcohol at a time of static world sales. Upgrading the image – and price – of alcohol is a neat strategy that the industry will promote to protect its bottom line and mollify its critics.

For appeasing the anti-alcohol lobby will be one of the two most important themes of the industry in the 1990s. The other major theme will be continuing consolidation.

The anti – alcohol phenomenon started in the US, the home of prohibition, where government health and safety warnings are now displayed on bottles and cans of alcohol. The message is clear:

"Government warning (1) According to the Surgeon General, women should not drink alcoholic beverages during pregnancy because of the risk of birth defects. (2) Consumption of alcoholic beverages impairs your ability to drive a car or operate machinery and may cause health problems."

Similar measures in other countries, such as the UK, seem unlikely, but the anti-alcohol lobby has got the industry worried enough to recommend practical initiatives that reduce the health burdens associated with heavy drinking.

The second important theme is consolidation, a trend that has been evident among spirits companies – rather than the brewing industry – throughout the 1980s. However, industry observers believe it will spread to the brewers in the 1990s, particularly in Europe.

The objective of takeovers in the spirits sector has been not simply the acquisition of brands, but also the gaining of distribution outlets. The takeover battle between Seagram and Grand Metropolitan for Martell, the French cognac house, was heightened for example because Martell had a powerful distribution system in the south-east Asia, the key growth area for international brands of spirits.

Control over distribution enables the manufacturer to keep the distributor's margin. In addition, as drinks groups seek to promote their brands internationally it is important to them that their brand images are consistent, an objective that is difficult to achieve if independent distributors control marketing budgets in their own territories.

Guinness, for example, has in the past three years discontinued more than 700 distribution arrangements and either taken control of its distribution outlets or set up joint ventures, as in the case of Moët-Hennessy Louis Vuitton, the French luxury products group.

Whether restructuring in the 1990s will be as dramatic as that in the 1980s is questionable with fewer large, conspicuous candidates for takeovers than in the 1980s. But big players like Grand Met's IDV division will still be on the acquisition trail. Companies not able to develop their spirits portfolio internationally – such as Whitbread which owned Long John Whisky and Beefeater Gin – may increasingly opt to get out of the industry.

Where are the big companies going to concentrate? The wine sector, according to Mr David Evans, chairman and chief executive of Hiram Walker-Allied Vintners International, could become more active. Mr Evans, speaking at a recent seminar organised by Canadean, the drinks consultancy, said on a purely financial basis it was more difficult to build wine brands from the margins that were generated. "Nevertheless, I do see more attempts to exploit this most fragmented part of our industry," said Mr Evans.

Beer and the brewing industry may also be one of the more dynamic areas in the 1990s. So-called global brands are beginning to emerge in the industry, a development started by Heineken, the Dutch brewer, and now energetically pursued by the likes of Elders IXL, the Australian group, with its Foster's Lager.

Europe will be one of the main battle grounds with tax harmonisation within the EC the single biggest influence on the European market for beer over the next few years, according to Mr Peter Bartels, chief executive of Elders Brewing Group. Excise duty, he told the Canadean conference, was the biggest barrier to free trade within the EC.

However, change could be accelerated by the Commission's inquiry into the brewing industry's so-called "block exemption" from EC competition restrictions, allowing exclusive purchasing agreements, such as loan-tie arrangements. Under this arrangement breweries give loans to bars in return for them taking their beers. Should the EC sweep away this exemption, brewers – particularly in Germany – would be exposed to greater competition.

Lisa Wood

Paper: supply up

Continued from Page 7

tal groups has often caught the industry on the back foot. But it is slowly trying to improve its image. After all, the industry can argue that its main raw material comes from wood, which is a renewable source. And it can claim to be virtuous in being able to recycle waste paper into new paper.

Another feature of the industry in the 1990s is likely to be a continuation or even acceleration of merger and acquisition activity. There is a variety of pressures on companies to merge: a desire to become less exposed to one particular area; a move to integrate vertically to avoid the swings in prices, for example a pulp producer merging with a paper maker; a willingness to buy capacity and market share, rather than build new; a need to become more international.

One of the big questions facing the industry is whether concentration of companies will make the industry more or less cyclical. If companies are larger, they should be stronger and readier to be competitive. On the other hand, if they have a broader range of activities they may not be so tempted to wring as much profit as possible out of one particular sector by raising prices sharply in good times and cutting them precipitately in bad.

The European Community market after 1992, and the possible opening up of trade with Eastern Europe, also present opportunities and challenges to paper makers. The prospect of a single market with 320m consumers is attracting companies outside Europe, such as North American and Australasian groups. Many want a production base within the EC, not just an ability to export to it.

The Nordic countries, whose economies are heavily dependent on the pulp and paper industry, are anxious to preserve the EC as their most important export market. This is another spur to corporate activity. Paper makers within the EC are being snapped up by companies from outside, often at high prices. Thus, UK Paper, the British fine paper producer, was bought by Fletcher Challenge of New Zealand last month.

It seems certain, then, that there will be plenty of interest in the industry over the next few years.

Maggie Urry

TEXTILES

MFA looks threadbare

WORLD TEXTILE AND CLOTHING TRADE

EXPORTS		IMPORTS	
Hong Kong	10.1%	US	17.7%
Italy	10.1%	W Germany	13.8%
W Germany	9.1%	France	8.9%
S Korea	7.0%	Hong Kong	6.6%
China	5.9%	UK	6.3%
Taiwan	5.6%	Japan	4.7%
France	4.5%	Netherlands	4.1%
Japan	3.8%	Italy	3.7%
Belgium/Luxembourg	3.7%	USSR	3.6%
UK	3.3%	Belgium/Luxembourg	3.2%
Others	36.9%	Others	29.8%

1987 figures. Source: Economist Intelligence Unit

TEXTILES IS one of the world's oldest industries. Cloths and clothing have been shipped from country to country for centuries.

Today's textile industry operates in an increasingly complex and competitive climate. The expansion of the new producers of Asia and Africa at the expense of the established manufacturers in the West is continuing.

But both sets of producers – the new and the old – are on the brink of a new and uncertain era. The Multi-Fibre Arrangement – the bilateral trading agreement that regulates the world trade in textiles – expires at the end of next year. No-one knows what – if anything – will replace it.

Textiles is an extraordinarily complex industry, stretching from the modernised spinning mills of Italy to the dilapidated sweatshops on the Hong Kong waterfront and to the *haute couture* salons on the Rue Faubourg St Honoré in Paris.

Since the mid-1970s, the industry has been regulated by the MFA, which was introduced to enable Western companies to restructure their operations to adapt to the new, more competitive climate after the oil price crisis.

Initially, the MFA was intended as a short-term agreement, yet it has been renewed three times. But in the free-trading ethos of the late 1980s, the MFA has seemed increasingly anachronistic. The European Commission is committed to its abolition. At the end of last year, the US stated that it favoured "substantive negotiations" in textiles but stressing the need for effective transition arrangements.

It is difficult to assess what effect the end of the MFA will have on the textile industry. Some observers paint an apocalyptic picture of the European and North American markets being swamped by cheap imports. Others argue that the present system is so full of loopholes – and abuses are so widespread – that its abolition will make very little difference.

The likeliest scenario seems to be that the chief casualties will be the small companies which still concentrate on low cost, mass market merchandise and compete directly against China and Turkey. The largest textile groups – Steilman in West Germany, GFT in Italy, Milliken in the US and Courtaulds in the UK – have structured their operations away from the mass market and so should be less vulnerable.

Nevertheless, there is concern among even the largest groups about the fate of the MFA. So far, the US textile companies have mounted the most aggressive lobby. But at the end of last year the heads of the 25 largest European textile groups met in Brussels to form a new organisation to lobby the European Commission on issues like the MFA.

The new organisation will also look at the impact of the unified market in the European Community. But the advent of 1992 be rather less dramatic for textiles than for many other industries chiefly because there is already relatively free trade across the EC. The main impact is likely to be to stimulate trade within the Community due to practical improvements such as consignments not being held up at customs for paperwork.

For the foreseeable future the development of the international industry will continue to be dominated by the emergence of new centres of low cost production and the attempts of the established companies to move into less competitive markets.

Textiles is long-established as one of the first areas of industrial activity for an emerging economy. In theory, any country with access to low cost labour can move into the world market for basic textiles simply by undercutting the established manufacturers.

This means that the balance of power within the international industry changes constantly. For decades the world trade was dominated by the old colonial powers such as the UK and France. The 1950s and 1960s saw the dynamic growth of new centres: Hong Kong, South Korea and Taiwan.

As these economies have grown, labour costs have risen and the textile companies have been undercut by a new generation of low-cost producers in Indonesia and the Philippines.

Hong Kong, South Korea and Taiwan are now struggling to come to terms with higher costs. In many ways they are in the throes of the same restructuring process that the EC industry experienced in the 1970s and the US industry in the 1980s.

The restructuring of the Western industry goes on and on. The US industry lost more than 250,000 jobs between 1980 and 1987, at a time when the EC textile workforce fell by a quarter. In theory, advances in textile automation in the 1980s – especially in spinning and weaving – should have enabled Western companies to erode the low-cost advantage of their competitors.

In practice, only the most progressive companies, such as those in Italy and West Germany, have really made the most of automation. And in many ways the structural changes in the retail sector – which now demands a far faster service from its suppliers – have been equally important.

The automation of production and the demand for quick response have wrought radical changes to the industry's ownership structure. One quirk of the traditional textile industry was that – although companies sell and source in different countries – they tended to restrict manufacturing to their own country of origin.

All that is changing. In the past year or so there has been a flurry of international acquisitions and affiliations across the industry. The rationale for the proposed merger between Coats Viyella and Tootal, the UK groups, in the summer was in their international thread interests. The giant Japanese groups – Toray, Wacoal, Kurabo and Toyo Menka Kaisha – have become involved in Europe.

This activity has been undertaken to ensure that the companies glean a competitive advantage, not on cost, but on service. More international acquisitions are in the pipeline. The textile industry of the 1990s seems set to be more international than ever before.

Alice Rawsthorn